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The Money Rate Puzzle

An Authorized Interview With

JOHN McHUGH

President, Mechanics & Metals National Bank of New York

Answering the Question Why Money Rates, in the Face of Increased Activity, Greater Production and Expanding Business, Do Not Go Up. Federal Reserve System Brings a New Financial Order, Affording Mechanism for Increasing Supply of Credit.

IT might well be called the money rate puzzle.

Throughout the country, observant and perplexed bankers have asked: "Why don't money rates go up?" Business is humming with activity. Production is large and growing greater. Plans for expansion in many fields have been laid. The underlying economic conditions have been pronounced never better. The fall movement of the crops, requiring a large amount of money, is getting under way and the seasonal upturn in manufacturing and in business will enlarge the demands on the banks. In the midst of this obviously increasing demand for credit and money, the rate is only slightly firmer and there are scant indications of much higher rates.

All of the conditions that used to send money rates up seem to be there, but the rates in the big financial centers are lagging and not nearly so responsive to the factors that formerly lifted them up. And, significantly, while some of the foremost and experienced bankers are predicting firmer rates in the fall, none has ventured to forecast "high" money rates—such as would almost certainly have prevailed in former years.

Where Is the Money Coming From?

THERE is another puzzling angle. Where is the money coming from that business is using? It is patent that production cannot be enlarged without increasing the amount of credit needed to produce the goods. The record breaking railroad car loadings show that the goods are being moved, yet, the volume of loans made by the commercial banks do not reflect this expansion. Indeed, the expansion seemingly has been achieved on a stationary amount of credit. The most accurate indicator of commercial loans—the item "all other loans" contained in the weekly statement made by more than 700 member banks in the foremost cities to the Federal Reserve Board—showed that the volume was shrinking, rather than increasing up until the first of August.

Yet, like all puzzles in economics, this riddle can be worked out. According to John McHugh, president of the Mechanics & Metals National Bank of New York and one of the financial center's most seasoned commercial bankers, the answer is that one big outstanding fact has been overlooked: The United States has a new order of banking. Conditions have changed. Factors that used to bring about higher rates at the first signs of tighter money no longer exert the same force. In short, the American banker, in considering money rate movements, must orient himself on a new base.

The Simple Answer

"UNDER the circumstance," Mr. McHugh remarked, "it is natural for bankers to be pondering why money rates don't go up. But the answer, in my opinion, is quite simple: We now have a coordinated system of banking instead of an aggregation of thousands of banks, acting independently. The coming and operation of the Federal Reserve System has made possible the pooling of our resources and has given us the mechanism for increasing the supply of credit at any time the demand increases without causing rates to go a-soaring. Before the war and the setting up of the Federal Reserve System, we did not have coordinated banking. Each bank had to rely to a large extent on its own resources. It had to keep large reserves and, at the first signs of tighter money, it began to prepare for a possible stringency. The action on the part of one bank was quickly followed by similar action of another. Uneasy in the knowledge that the money supply could not be expanded beyond a certain limit, the rate was advanced to hold the demand for credit within bounds and to get the higher yield on the credit available. The moving of crops and the seasonal demand for credit for industrial purposes did place a strain on the credit supply. It became a matter of habit for everyone to expect a sharp rise in money rates with quickening business activity. Now, even though we have a new order of banking, it seems that many bankers look for a recurrence of this historic advance.

"Those days have passed. In the meantime, we have become vastly wealthier. Before the war, we were a debtor nation. Now, we are a creditor nation—and the pendulum has swung far in the latter direction. Our investments in other countries are considerably more than foreign investments in the United States were at the outbreak of the war. Our gold supply is immeasurably larger, and gold is the basis of credit. Nearly half of the world's supply of monetary gold rests in our vaults and strongboxes. While the tide in the flow of gold has turned, we

can well afford to lose much of it. The last census placed our national wealth at more than three hundred billion dollars. In pre-war days, a millionaire was a rarity. Now he is not so scarce. I have seen the statement made that fifteen million people in the United States are not obliged to work for a living as they could live off of their income without turning a hand; whether this figure is correct, certainly we have a great many well-to-do. A few years ago, a bank that had $25,000,000 in deposits was considered a tremendous financial institution. Now, there are many with deposits running more than a hundred million dollars. We must adjust our thinking and expectations to these proportions.

"But the real reason, in my opinion, that money rates do not go up are the comparatively low Federal Reserve rate, the coordination furnished through the Federal Reserve System and the confidence on the part of member banks that they can go to their Federal Reserve bank at any time with paper eligible under the law and convert it into cash or credit on short notice. I believe that the advent of this system means that the days of 'high' money rates are over unless the Federal Reserve rates are substantially increased. It is not so much that the member banks use the facilities of the reserve banks in the extension of credit. The knowledge that they can always look to the reserve banks to rediscount their paper and obtain the funds needed to maintain liquidity is the assurance that enables banks to use their resources to a far greater extent. It was not uncommon before the war—indeed it was the requirement—for banks in central reserve cities to maintain reserves of 25 per cent in the form of cash in their vaults. Now, they do not keep more than 12 or 13 per cent in reserve, including their balances on deposit with the reserve banks.

Demand Not Smaller

"THE ease in money rates cannot be attributed to a smaller demand. American business and trade requires a greater volume of credit than ever before. But this is offset by the existence of a greater and more flexible source of credit.

"The bankers' acceptance has come into wide vogue. Before the creation of the Federal Reserve System, banks did not 'accept' and there was no American acceptance or 'bill' market. The United States, of course, exported large quantities of cotton, wheat and other agricultural products. In the fall, the movement of the crops made heavy demands on the resources of the banks for it tied up a considerable part of their funds. Now, more than half of our whole foreign trade is financed through bankers' acceptances. In the old days, when American banks discounted the drafts that American exporters presented with their bills of lading covering overseas shipments of agricultural commodities, they used an equivalent part of their funds. Now, in financing by the use of bankers' acceptances, they merely loan their credit—guarantee that shipments will be paid for. Money that formerly would have been tied up for crop moving purposes is thus available for commercial purposes.

"In the field of commercial banking, conditions have changed. The turnover is getting swifter. Some of the department stores in New York and the big centers turn over their capital once every month and a half. There has been an improvement in our transportation system so commodities are not so long in transit. This has been a real factor in making it possible for the buyers to operate on a sort of hand-to-mouth basis. This means that there is not as much money tied up in inventories as formerly, and the speculative risk is not as great. The policy of buying on a hand-to-mouth basis, with a rapid turnover, has made it possible to do a greater volume of business with a smaller volume of credit.

"As long as the Federal Reserve banks are kept from unwise political influences and are managed by competent and experienced business men and bankers, there is no reason why the member banks should feel at all uneasy about their ability to have their credit needs taken care of. Credit can be expanded safely and soundly to meet all legitimate needs. The ratio of loans to deposits among the member banks is low. This indicates that there is adequate credit. If the need for more credit develops, it would be a very easy matter to expand the supply. Under normal conditions, the nature of American banking, under the Federal Reserve System, will tend to keep money rates low."

Conditions Not Yet Normal

"BUT, do you consider the Federal Reserve System is now working under normal conditions?" he was asked.

"Almost," Mr. McHugh responded. "The Federal Reserve came into existence under abnormal conditions. It went through one of the greatest periods of war and consequent inflation we have ever witnessed and then weathered one of the most severe periods of deflation. It proved invaluable in both periods. We have not entirely recovered from the hangover. While business in the United States is moving satisfactorily, I think that it would be better for all concerned if the rate for all loans were about 1 per cent per annum higher. There would not be so much tendency toward speculation under a higher rate.

"We have poured a large volume of short-term credit into Europe. What Europe needs is long-term credit, not short-term loans. This is not bad—from our standpoint— but, if these short-term loans should be withdrawn, it would create an unhealthy situation in the continental countries and this would react adversely on business here.

"Wages in the United States are still high. Any thoughtful banker is bound to be concerned over what will happen in the world markets when our goods, produced by highly paid workers, come into competition with the goods of other countries, manufactured by lowly paid workers. It is true that this apparent advantage is largely offset by the fact that we have mass production and machine manufacture, whereas the competing nations are turning out their products to a greater extent by the laborious hand-manufacture methods.

"The European nations owe us large sums of money and this obligation is being swollen by the billion-dollar-a-year investment of private capital abroad. Our high protective tariff tends to keep out the products that they make and it is apparent that the only way they can pay us is by selling us their surplus goods and services. We bankers have been worrying for five years or more about how the foreign countries are going to pay us the enormous sums owing. There is this to be said: If there should be a constant rise in prices and an appreciation in the value of real estate, sums that seem large to us now would not appear so colossal.

"All of these things have an effect on American banking and it would not be just correct to say that the Federal Reserve banks are now operating under normal conditions.

Summing It Up

"THE reason for the prevailing rates in my opinion is simply this: A system of coordinated banking has replaced a financial order based on independent action. Loans may be made by a commercial bank in this district with the knowledge that it can rediscount its paper with the Federal Reserve bank at 3½ per cent. So long as the loans are made on a sound basis, credit can be expanded safely to meet any needs that develop. It is just a case of the supply being available upon demand at a low rate and the moderate rates by member banks and in the market generally reflect this fine adjustment."

Sixty Billion Dollars

IN a call to the membership to attend the annual convention, President Knox says:

"When a business celebrates its growth from resources of $3,000,000,000 to over $60,000,000,000 in fifty years it certainly is an event of great public significance in American history. This year's convention of your Association at Atlantic City will constitute just such an event. The American Bankers Association was organized in 1875 when there were about 3,000 banks in the country, with aggregate capital and surplus of $850,000,000 and deposits below $2,000,000,000. Today there are about 30,000 banks, with capital funds of $7,000,000,000 and deposits above $50,000,000,000. More than 22,000 of these banks are members of your Association.

"The convention signalizing the half century mark will be made the occasion for reviewing the progress of banking and the services it has rendered the people of the United States. A practical token of this will be given the public in the form of a proposed educational foundation to maintain college scholarships in economics and to promote economic research. Banking serves itself best by serving others and the more economic-minded it helps our people to become, the firmer will it build the foundations of its own prosperity.

"Another great opportunity will present itself at this convention for organized banking to render significant public service. The present period is particularly opportune to support the administration in its economic program."

A World Meeting of Minds

By F. N. SHEPHERD
Executive Manager, American Bankers Association

Voice of American Business Potent in Economic Deliberation at Brussels Congress of International Chamber of Commerce. Program for Economic Reconstruction Provides for Adjustment of Debts. Transfers Under Dawes Plan Grave Problem.

BUSINESS men of thirty-two countries sat around the council table at Brussels, June 21 to 27. The occasion was the congress of the International Chamber of Commerce.

The purpose was the consideration of world problems, economic in character.

The council table in reality was the Grand Hall of the Palace of the Academy in the capital city of the Belgian Kingdom. The opening session presented a brilliant and imposing scene, for, while the long, rectangular hall was not overly ornate, it was colorful. Immediately behind a small gallery that elevated itself above the speaker's dais, a richly colored painting of a historic Belgian scene, vivid with great splashes of cerise and bright blues, arose from the floor to the ceiling, covering the whole end wall. On either end of the side walls there was a group of three panels, which served as frames for brilliantly colored murals. In the middle were three boxes, hung in a warm red. The panels were crowned with carved figures that looked down upon the men, who had come from the corners of the earth to meet in common conclave.

King Albert Attends

IN the middle box on the right sat King Albert of Belgium, wearing the khaki uniform of an officer of the Grenadiers. A squadron of cavalry had escorted him from the nearby royal residence and, as he entered the box which bore his crest, the orchestra played "La Brabanconne" and the audience rose to face the kingly visitor, who stood stiffly at attention. His presence recalled his courage and optimism during the great war, and when the music stopped from all parts of the hall "Vive la Roi" resounded.

On the King's right diplomats from the principal nations to his court were seated. William Phillips, the American ambassador, occupied a front seat, flanked by the representatives of the Continental powers.

Turning to the King and the diplomatic corps, the president—Willis H. Booth, an American banker—began his opening address with a resumé of the International Chamber's history. Phrased in English, it was followed with interest and punctuated with applause. The Third Congress had begun.

Within the hall were the representatives of business men's organizations from twenty-eight countries. The United States topped the list with 260 delegates. In the point of numbers next came Belgium with 92, Great Britain with 90, France with 57, Holland with 42, Italy with 35 and on down the list to Brazil, Chile, Peru, Latvia, Hayti, Turkey and far-off Sudan with a lone representative. In general appearance, the assemblage was not unlike that of a gathering of our most successful and experienced business men.

All factors of international business, including finance, industry, transportation and commerce, are represented in the Chamber.

It was organized "to ascertain and express the considered judgment of those interested in international business; to secure effective and consistent action both in improving the conditions of business between nations and in applying solutions for international economic problems; to encourage intercourse and better understanding between business men and business organizations of the various countries and thereby to promote peace and cordial relations among nations."

America's Voice Is Potent

WHILE the United States is not officially a part of the political councils of Europe, in its economic deliberations the voice of its business men is potent. At Brussels the president of the International Chamber was an American banker, Mr. Booth, vice-president of the Guaranty Trust Company of New York. Mr. Fred I. Kent served as chairman of its most important committee, the one that framed the resolutions on economic reconstruction. Mr. Kent, who is Chairman of the Commerce and Marine Commission of the American Bankers Association, also headed the delegation representing the Association at Brussels. S. Parker Gilbert, former Under-secretary of the United States Treasury, appeared before the congress as the agent general of reparations under the Dawes plan and recounted the progress that had been made by Germany in the payment of reparations.

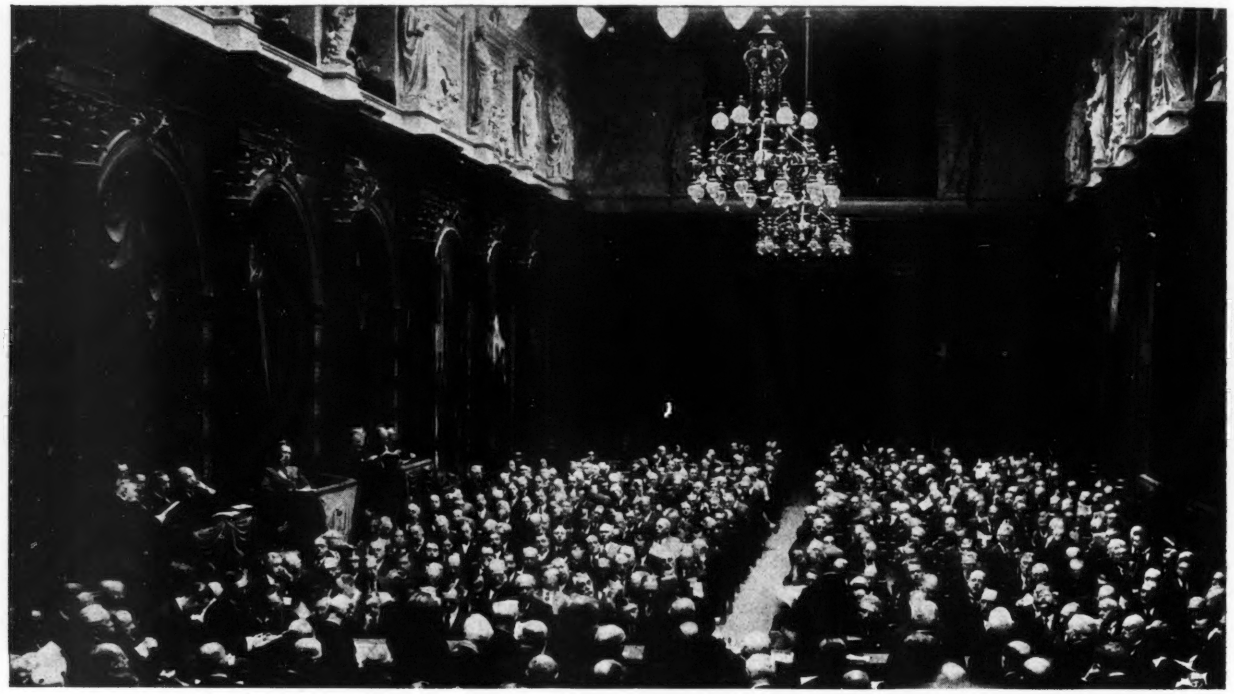
Perhaps the character of the International Chamber could not have been more succinctly expressed than when M. Maurice Despret, president of the Bank of Brussels, who presided over the congress, said, "In our gatherings politics have no place. . . . Well we know that against facts fancies are powerless."

Under its plan of procedure the congress organized itself into three groups—finance, transport and industry and trade, which met in the forenoons for the discussion of particular subjects. The plenary, or general sessions, held in the afternoons, were chiefly devoted to the consideration of the various problems affecting economic restoration. They were addressed by such outstanding men as John Syz of Switzerland, honorary president of the International Federation of Master Cotton Spinners and Manufacturers Associations; Sir Alan J. Anderson, K.B.E., deputy governor of the Bank of England; Sir Josiah Stamp, president of the Executive of the London, Midland & Scottish Railway; Alberto Perelli of Italy, former member of the Dawes Commission; M. Maurice Lewandowski of France, managing director of the Comptoir National D'Escompte; S. Parker Gilbert, Agent General for Reparations; John W. O'Leary, president of the Chamber of Commerce of the United States, and Fred I. Kent, vice-president of the Bankers Trust Company of New York.

The Finance Group

THE finance group addressed itself to the unification of laws governing checks, the object being the facilitation of the international circulation of checks. By the American delegates this subject was regarded as academic, but its further study by the Cheque Committee was directed under the chairmanship of W. Westerman, president of the board of the Rotterdamsche Bankvereeniging. The attitude of the British is that bills of exchange and checks are virtually inseparable and that, until there can be a reconcilement of the Anglo-American code and the Continental system on bills of exchange, there would be little use in attempting to unify the laws governing the use of checks drawn in one country and payable in another. The underlying principles of common law in the Anglo-American countries and in the Continental nations are in conflict, but the study will be continued in the hope that mutual concessions might ultimately bring them to a common view.

Of particular importance to the finance group was the subject of double taxation and the passage of such laws as would relieve citizens or corporations from being taxed upon the same income by two or more countries. Two basic principles were agreed upon: First that a sharp distinction should be drawn between the impersonal tax, affecting income at its origin, and the personal tax, at the domicile of the taxpayer. It was declared that only the state, in which the source of income was situated, was entitled to impose impersonal taxes. Levies on the whole income of a taxpayer, it was declared, should be made only by the state



The Third International Chamber of Commerce in Session at Brussels, Belgium

of domicile, where the taxpayer has his permanent home. Where enterprises have their head offices in one state and branches or agencies in another state, it was agreed that each of the contracting states should tax that portion of the net income produced in its own territory. Agencies not an integral part of the enterprise and established on a basis of commission should be exempt from taxation in the country where the agency is established, except in so far as the profits of the agent himself are concerned.

In the case of banks the principle of taxing the portion of net income arising in the different states was approved. When the operations of a branch of a bank owned by any country are confined to discounting or to paying over money in another country, an exception would be made.

Around these two basic principles the congress sought to work out a somewhat detailed plan for avoiding double taxation in all enterprises. Conventions between nations would be necessary for the success of the proposed arrangements.

Other Group Sessions

WHILE economic reconstruction was the major question, the industry and trade group gave its attention to a variety of subjects, such as agreeing upon a fixed date for Easter; defining the term "Commercial Character of Postal Packages"; considering customs discrimination, improvements in the system of executing foreign judgments and the protection of industrial property.

The Transportation Group recommended the ratification of the Conventions on Limitation of Shipowners' Liability, on the immunity of public ships and on bills of ladings. It considered other maritime, railway and transport and commercial aviation problems.

The crystallized deliberations and recommendations of the various groups found their way before the general congress in the form of declarations or resolutions. While each of the participants in the group sessions spoke in his native tongue, interpreters, with amazing skill, rephrased the remarks in French and English, so the barrier of different languages was surmounted.

Inter Allied Debts

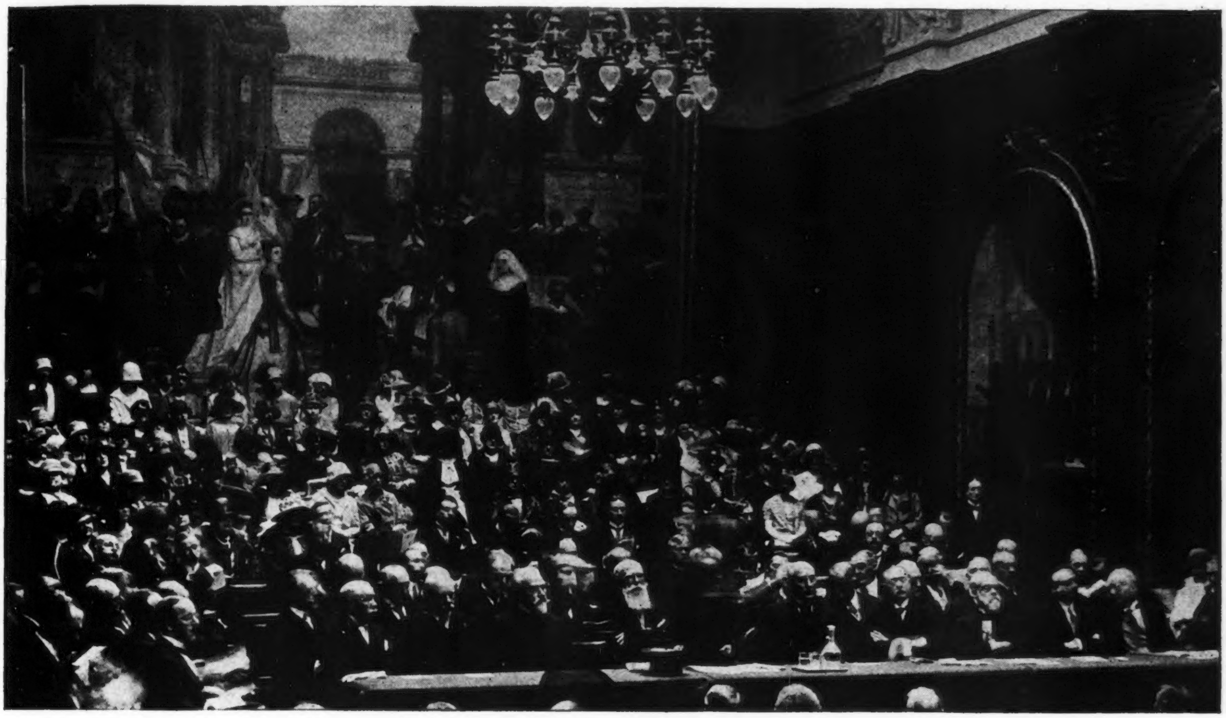
DELEGATES at Brussels awaited with interest a statement from American business in the matter of inter-ally indebtedness. When John W. O'Leary, vice-president of the Chicago Trust Company and president of the Chamber of Commerce of the United States, had finished his address, there remained in the mind of no one present any doubt about the position of American business on this point.

Mr. O'Leary directed attention to the unanimous agreement of the Rome Congress of the International Chamber two years ago "that a constructive program for the solution of the reparations problem was a condition precedent to any permanent improvement of world conditions." He might have added that the Dawes Commission and plan of reparation settlement was the outgrowth of the "Rome Resolution" of that body. He reviewed the marked economic progress, since that meeting, in Belgium, France, Italy, Great Britain, the United States, and in Germany, since its whole-hearted acceptance of the Dawes plan and the consequent stabilization of the mark. "In practically every instance," he stated, "among the other allied countries steady progress is to be observed in spite of every difficulty and discouragement." He referred to the belief recorded at Rome that "expansion of commerce and industry could be secured only by maintaining the integrity of obligations," and directed attention to the fact that the first great step toward restoration of confidence and the cooperative increase in world trade "lies in the assurance that all nations will meet their financial obligations."

"From the point of view of our business men," he added, "there can be no lasting confidence in international agreements if governments fail to recognize their obligations. The precedent is dangerous to those who owe and to those who are owed. The people of the United States are clear on this principle. They believe that experience has proved the soundness and wisdom of this principle. They have seen the pound restored to par largely through the confidence instilled by the funding of the British debt. They have eagerly welcomed the Belgian determination to fund their debt, not selfishly only, but because they know of the benefit this will bring to Belgium."

"The funding of international debts is a problem of government and must be handled by government. But today governments continue in power only by carrying out the will of the people. In the position which the United States Government has taken on the funding of debts from other nations it is carrying out the will of the American people.

"We believe that our government has taken full cognizance of the difficulties in the payment of these debts. The spirit of fairness will always be maintained by the American people. If the funding of these debts is delayed, the return of confidence will be delayed and the restoration of con-



Another View of the International Chamber in Session

fidence provides the greatest aid to a means of payment."

The High Water Mark

THE high water mark of the Brussels Congress was reached with the address of the closing speaker, Fred I. Kent, and the resolution on economic restoration which emanated from the Committee of which he was Chairman.

Mr. Kent's address was an extended analysis of post-war business conditions in which the chief difficulties were due to unbalanced production and the burdening of government with needless employees. "Instead of undertaking such measures as were at their disposal to aid industry to employ men, governments deliberately separated vast numbers of men from industry by taking them into government in effect in some form or another on a basis of wages without production," he said. "Inevitably taxation so spent led at once to unbalanced budgets, taxation under false principles, currency inflation, reduced production, rising prices, excess of imports over exports because of reduced production and fluctuating foreign exchanges. These elements, working together—all of which came from unbalanced budgets—led to the distressing financial developments in many nations which have prevented a settlement of all the questions left by the war."

"Without realizing it," continued Mr. Kent, "the tendency of the massed thought of peoples following the war has all been toward action which was directly opposed to the prompt recovery of the production which they required. They bound themselves to shorter hours of labor when their necessity required, for a time, longer hours of labor, but they did what was worse, they tied the hands of a large number of people by taking them into government, when government had nothing for them to do. They demanded legislation which resulted in the dissipation of such wealth as remained and that so penalized those among them who might have been able to help in the upbuilding of production that their power to do so was curtailed or nullified."

Mr. Kent advocated the close study of government by organized business men "having diversified and competitive interests," such as those bodies represented at Brussels, with recommendations after careful study and investigation to parliamentary bodies "free to consider them entirely from the standpoint of the national good," and added "a simplified government free from bureaucracy and in close coordination with all branches of industry, but clearly separated from them, should enable a much higher average of continuing prosperity in every nation."

Ecomomic Restoration

THE declaration on Economic Restoration, unanimously adopted by the Congress, merits the careful reading of every thoughtful business man. Here it is:

On the occasion of the conference at Rome the International Chamber of Commerce agreed upon principles which, it believed, must be recognized without delay in order to overcome the effects of world-wise economic disorder. It observes with satisfaction the general acceptance of these principles and the progress which has been made toward reconstruction during the two years which have passed.

It feels impelled, however, to reiterate the fundamental character of these principles and to emphasize the fact that the serious difficulties still to be encountered will be solved only by their frank recognition and concerted effort to overcome them.

The Dawes Plan

We regard the adoption of the Dawes plan as the most constructive development during the period under review. Its unconditional acceptance by Germany confirms our belief that it is possible for her to fulfill the obligations she has assumed, and experience thus far gives assurance of the success of the plan with the cooperation of the German people and their leaders.

Transfers

(a) The problem of transfers presented by the operation of the plan is one for which there is no precedent in economic history. Past experience provides very little guidance.

We are convinced that the evident difficulties can be overcome, but only by actual experience and the continual study of events, to which governments and the business interests of the world must give their most serious thought.

(b) The Economic Restoration Committee of the International Chamber of Commerce in its report has referred to several methods by which the necessary transfers may be effected. It seems hardly probable that the problem will be solved by any one means; but the result will be accomplished by various methods.

(c) The Transfer Committee was created for the purpose of converting the sums accumulated in Marks into equivalent values outside of Germany. It must have the cooperations of all governments and of the business interests of the world. The International Chamber of Commerce pledges all assistance within its power.

(d) Successful transfers entail the cooperation of all nations whose interests are involved; but there is a special responsibility on Germany to do everything in her power to facilitate them. Any failure must produce conditions which will inevitably be injurious to herself as well as to others.

(e) The principal considerations which apply to the transfer problem obtain with equal force in relation to the question of Inter-Ally indebtedness. Attempts to transfer excessive amounts in settlement of obligations must of necessity especially affect the budget and currency conditions of the country involved, and so disturb its financial situation. Special precautions are necessary to prevent such difficulties, and due account must be taken of the internal and external economic conditions of the countries concerned.

General Improvement in Conditions

(a) The Rome resolution emphasized the necessity of balancing budgets, eliminating inflation and currency disorders, and reducing government expenditures in order to secure general restoration of production, trade and employment.

Substantial progress has been made in these directions, but it must be pointed out that much still remains to be done. It is only insofar as governments address themselves seriously to the economic aspects of these problems, as bearing upon the general welfare, that opportunities for

better living conditions and greater progress will be possible.

(b) In general, such progress toward balancing budgets as has been obtained hitherto has resulted not so much from economy as from increased taxation burdens. Excessive taxes discourage effort, curtail the capacity for saving, hamper industrial enterprise and produce unemployment. The unrest developed by unbalanced budgets and overburdensome taxation expresses itself in political instability, which in turn impairs confidence and impedes economic recovery.

Inter-Ally Debts

In its statement at Rome this Chamber expressed the opinion that the question of inter-ally debts was one which affected the general situation and that a solution should be found as promptly as possible. Some funding arrangements have been completed and further progress is in prospect. The settlement of the question as a whole has an important bearing upon the establishment of confidence as a basis for credit and investment and consequently will facilitate the balancing of budgets and the final stabilization of currencies. The principles enunciated in the Rome resolution are still pertinent and call for no alteration. They recognize the necessity of removing this question as an element of uncertainty, on the basis of justice and fairness to the interests of both creditor and debtor nations.

Obstacles to Trade

The Chamber has directed attention to interferences with the return of normal trade conditions and employment, caused by artificial barriers, obstructive to intercourse between the nations, such as extreme tariffs, unreasonable customs regulations and restrictions on transportation. All of these have the effect of increasing the delivered cost of goods and preventing the widest possible distribution and use of the world's products, which are the basis of better living standards and progress.

The Chamber appeals to the business men of all countries to study these questions and to exert their influence for the removal, as promptly as possible, of all unnatural and uneconomic restrictions of this kind.

Establishment of General Peace and Confidence

It is not the aim or desire of business men to promote class interest. Healthy business conditions depend upon and advance the prosperity of all classes.

Sound expansion of commerce is the wisest and most efficient method of securing the welfare of all and overcoming present economic difficulties. Such expansion depends on making the savings of the world available, freely, for new enterprises and for the extension of credit. The full utilization of these forces is influenced primarily by the restoration of confidence, the greatest obstacle to which is the menace of war.

Business men may do their part to promote better understandings and increase good will. It remains for government, however, representing the authority of the people, to find better means than yet exist for providing security and removing the fear of war. The chief responsibility of government is the solution of this problem. On no other ground can the foundation for a general restoration of trade and prosperity be laid. The accomplishment of this result calls for the courageous leadership of statesmen and the suppression of jealousies, rivalries and suspicions among the nations. It calls for the firm will for peace on the part of all peoples.

Further Study

It is the duty of the International Chamber of Commerce to continue to contribute in every way in its power toward the solution of the problems reviewed herein and the Council should appoint such committee or committees as may be necessary to secure recognition of and make effective these principles, for which the Chamber stands.

Sir Felix Schuster Seconds

RISING to second the resolution Sir Felix Schuster, President of the British Bankers Association and director of many financial institutions, said:

"I have the honor to second the resolution which has been proposed. May I remind you of the resolution which we had the pleasure to submit to you at the plenary meeting at the Congress in Rome, and which has so much contributed to the progress which has since been attained.

"I venture to describe the resolution we now submit to you as drafted in the same spirit of peace and hope. We do not conceal from the world that great difficulties are still facing us, that many obstacles have to be overcome. Many of our industries are still suffering from unemployment. It is for the Governments to take action. It is not in our power nor province to do so. We lay down principles by which in our mind such action should be taken. Let us hope that an appeal will be made, that we will all look the situation in the face with courage; and much has already been done for that restoration of confidence without which success seems unattainable.

"Our deliberations at Rome which brought about the Dawes committee whose efforts have been so wondrous, and the results of our last investigations, give the certainty that peace is insured. We are quite aware of the difficulties which are facing us, yet we believe that there are ways by which these difficulties will be overcome. Our great task will be to encourage the increase of production of the commercial nations; there are many new fields whose resources are inexhausted, and we must further the development of daring activities.

"We want the restoration of Europe to normal conditions, the restoration of the purchasing power. But we need a united Europe, and I will remind you of the motto of the Belgian nation: "In Union there is Strength." We want a united Europe so that we may be able to overcome all difficulties.

"We may be helpful not only in purely commercial matters but in promoting the welfare of countries if we remove the present feeling of unrest and uncertainty, and we will have done all in our power if ten years after such a war, the peoples of the world come together and work together for the progress of humanity at large and better understanding."

A Tense Moment

ONE would scarcely expect the dramatic at a congress of the world's business men gathered to formulate the broad principles on which the war-torn fabric structure of Europe might be reconstructed. In the committee rooms, the differences of opinion find adjustment—so the chance of a display of verbal fireworks is remote. The whole atmosphere is pervaded with friendliness and conciliation—for international conferences can exist only through a meeting of minds.

Yet if there was one big moment at Brussels that possessed a definite thrill, it was at this juncture:

The question of inter-allied debts—admittedly one of the most delicate issues of the time—had been raised. Nothing had been said about them during the earlier sessions but this discreet silence, by no means, was indicative of a lack of lively interest. The crisp, outspoken remarks made by Mr. O'Leary had let the conferees know where the United States business men stood—firmly in favor of the nations meeting their obligations by refunding the debts without delay. The resolutions on economic reconstruction declared for an early understanding to remove them from the sphere of uncertainty. The eminent British banker—Sir Felix Schuster—had warmly seconded the resolution. But the spokesman for France, the largest debtor nation of the world, had not been heard. If there was a tense moment, it was then—when Sir Felix had concluded his remarks.

A member of the French delegation sought recognition. He was Etienne Clementel, the former Finance Minister of France and the first president of the International Chamber. The man who had gone out of power when the Herriot minister fell fighting against the further inflation of the franc, began to speak. As if sensing the question that was uppermost in the minds of his auditors, he went direct to it, asserting that the French delegation was in accord with the views of the resolution and announced the desire to see the government enter upon negotiations to adjust the debts, the importance of the pronouncement—upholding the sanctity of credits—seemed to fill the whole assemblage with the feeling that the basic principle in trade was safe and the future secure.

"The French Delegation to the Congress of the International Chamber, representing nearly all the economic associations of France," M. Clementel said, "subscribes fully to the resolution on economic restoration and is convinced that the principles laid down in that resolution, especially those concerning the consequences of the Dawes plan, the ways and means of making transfers and the suppression of obstacles which hamper the return to normal conditions of business and labour, will insure an equitable settlement of all obligations taking into account all the factors involved.

"Considering also that the burdens resulting from these obligations cannot weigh exclusively upon the present generation which has borne and is still bearing the crushing load of the war, and that dates of settlement must be arranged so as to take this into consideration, the delegation asserts its desire to see governments enter into negotiations in this spirit with a view to the settlement of interallied debts."

World's Outstanding Problem

THERE is probably no group of men that would be considered more competent to judge what constituted the world's greatest problem. So when President Booth, at the very outset, observed "The ability to successfully transfer the annuities provided for in the Dawes plan is the outstanding important problem of the present moment," he struck a keynote that had a resounding echo in the latter sessions when the most eminent men of Europe alluded with misgivings to the future conflicts between national and financial interests when the transfers of wealth from Gemany to the creditor countries should come. Sir Josiah Stamp, head of a great British railroad, analyzed these difficulties in an address that worthily radiated around the world. In a direct, straight-from-the-shoulder manner, Sir Josiah said that if any country wished to realize on reparations it would have to make up its mind to receive in its own markets products that would be sent directly or indirectly by Germany, for Germany could only pay her debt by selling her goods and services. Fur-

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The Deposits of Public Moneys

By CHARLES S. DEWEY
Assistant Secretary of the Treasury

Since 1791 Deposits of Public Moneys Have Been Continuously Maintained With the Banks of the Country. There Have Been Many Changes in the Policy Governing the Practice. Reasons for Present Plan. Savings Which Have Been Effected.

EVER since the establishment of the First United States Bank in 1791, the policy of the Treasury Department, as regards the deposits of the public moneys, has been changed so frequently to meet existing conditions that a brief sketch may be of interest as a preface to a description of the policies governing such deposits at the present time.

Since 1791, with the exception of a few comparatively brief intervals, deposits of public moneys of the United States have been continuously maintained with the banks of the country, and during the greater part of the time since that date they have occupied a most important position in the depositary system of the government. The first government deposits with banks were those made with the First United States Bank and later with the Second United States Bank. These banks with their branches functioned as depositaries from 1791 to 1811, and during the greater part of the period from 1817 to 1833, respectively. In the intervening periods, until 1846, when the Independent Treasury system was finally established, some government deposits were maintained with state banks although in those days public moneys were, to a considerable extent, kept by collectors until needed. The unstable character of the banking institutions of that time, however, made this system unsatisfactory and, in a large measure, responsible for the establishment of the Independent Treasury system, which temporarily accomplished the complete separation of the government from the banks. This condition existed until after the outbreak of the Civil War when, in 1863, the national banking system was established and national banks began immediately to be used as depositaries of the government to supplement the subtreasuries as custodians of public funds. As this system developed and the scope of the government's activities broadened with the growth of the country, the treasury gradually placed more and more reliance in national banks in depositary matters and they eventually occupied the primary position in the depositary system of the government. This relationship remained unchanged until after the passage of the Federal Reserve Act in 1913.

Constant Procession of Changes

IT was inevitable, of course, that during the course of over eighty years, since the establishment of the national banking system, the policies of the government as to deposits of public moneys with national banks should undergo many changes, and we find a more or less constant procession of important developments in this respect, some inspired by the convenience or necessities of the government itself, and others controlled by business and financial conditions of the country. In general the fundamental basis for the deposit of public moneys with banks has been to provide the essential facilities for the transaction of the government's business and for the safeguarding of the public funds during their receipt and disbursement.

There have been times, however, when, because of the inflexible banking system which existed prior to the establishment of the Federal Reserve System, it was the custom and, in fact, was considered the duty of the Secretary of the Treasury to grant relief under special circumstances by making special and extraordinary deposits with banks to relieve local or national money stringencies. An example of this action is found in the period of financial depression in the latter part of 1907 when the Secretary of the Treasury made substantial deposits with national banks which aided greatly in restoring confidence and relieved to a large extent local demands for currency. Again, shortly after the outbreak of the World War special deposits were made with national banks to assist in the moving of the grain crops in the Northwest and the cotton crop in the South, the markets for which had been temporarily deranged by the war, and conditions were considered of sufficient gravity to justify extraordinary action by the Secretary of the Treasury. Furthermore, at times when the government's receipts exceeded its expenditures, it was of advantage to the government, as well as the country, to place the surplus funds with banks in the form of government deposits, thus giving the banks and the public the benefit of the use of the money which would otherwise have remained idle in the treasury and the government the income derived from the moderate rate of interest paid by the banks upon such deposits. While, in the main, these special deposits were of a temporary nature, such deposits, supplemented by the natural growth of the depositary system, effected an almost continuous increase in the number of national bank depositaries and the total amount of the government deposits therewith. From 1864 when there were 204 national bank depositaries with total deposits at the end of that fiscal year of approximately $40,000,000, the system grew until on June 30, 1913, there were over 1,500 national bank depositaries carrying aggregate deposits of approximately $100,000,000.

Because of the previous history of government deposits with banks, it is only natural that a certain amount of misunderstanding should exist at this time as to the present policy of the government as to deposits of public funds with depositary banks, which, though basically unchanged, has been modified considerably to meet present day conditions. This brings us to what is, perhaps, the most important and interesting period in the evolution of the depositary system of the government. This period may be divided into three phases:

First, the period ushered in by the establishment of the Federal Reserve System; second, the period after the entry of the United States into the World War; and third, the period covered by the inevitable readjustment following the unprecedented conditions brought about by the war activities of the government.

The establishment of the Federal Reserve System did not immediately affect the government's deposits with national banks, but with the growth of that system and the utilization of the Federal Reserve banks and their branches as depositaries and fiscal agents of the government, as contemplated by the Federal Reserve Act, it gradually developed that the greater part of the government's disbursements were made through the Federal Reserve banks and branches. It was, therefore, essential that the revenues of the government, so far as possible, be deposited direct with such banks. Consequently, as soon as the Federal Reserve banks were in position to transact the government's business, the first logical step taken to meet these changed conditions was the transfer of all the regular depositary functions and the government balances from national bank depositaries to the Federal Reserve banks in the twelve Federal Reserve cities. This was accomplished on January 1, 1916. Later, as the branches were established at twenty-three other principal cities in the United States similar action was taken at those points so that for some years past the Treasury has maintained no balances with general national bank depositaries in the cities where the twelve Federal Reserve banks and their twenty-three branches are located. National bank depositaries have been continued in those cities only for the purpose of carrying balances to the credit of the official checking accounts of postmasters and officials of the United States Courts. These funds, however, are not under the administrative control of the treasury and that de-

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partment does not, therefore, regulate the balances, its function being simply to provide depositary facilities when and as required by the officers concerned. The immediate effect of this action, of course, was a very material reduction in the government's deposits with national banks as a whole inasmuch as the balances previously carried with such banks at the points involved were quite large, being based upon the amount of the business handled for the government.

Out of the Money Market

ANOTHER and unquestionably more important result effected by the establishment of the Federal Reserve System was the definite removal of the treasury from the money market.

The machinery provided by the Federal Reserve System for meeting money stringencies has eliminated any necessity which might previously have existed for making special deposits in such contingencies and has restored the relationship of the treasury to its depositaries to the proper and logical basis whereby the treasury only maintains with depositary banks such deposits as are necessary for the conduct of the government's business. This is the present policy of the Treasury Department.

The war period, bringing with it the consequent heavy disbursements by the government, necessitated a recession from the policies put in effect upon the establishment of the Federal Reserve System. The widespread war activities of the government, many of which were located at points in which the facilities afforded by the Federal Reserve banks and branches were not readily accessible, caused the treasury to again place large deposits with the national banks resulting, temporarily, in a large increase in the number of such depositaries and an increase in the amounts deposited.

As we drew away from the war period the attention of the government was necessarily directed to the question of retrenchment in government expenditures. There were no surplus funds to deposit with the banks as the government was itself a heavy borrower in order to meet its current requirements. The gross public debt as of June 30, 1913, amounted to only $1,193,047,744.66, and the total interest paid during the fiscal year ending on that date amounted to $22,899,108.08. The highest interest rate paid was only 4 per cent while the lowest was 2 per cent with an average of 2.365 per cent as an annual interest charge as of that date on the interest bearing debt. This may be compared with the public debt figures as of June 30, 1924, when the public debt stood at $21,250,812,989.49 with a payment of interest during the fiscal year of $940,602,912.92. The annual interest charge as of that date was 4.18 per cent on the same basis.

Savings Self-Evident

CONSIDERING these circumstances, the depositary policies of the government necessarily aimed to obtain the greatest possible use of all public funds, in order that the treasury's borrowings might be kept at the lowest possible point. Consequently, during the fiscal year 1920, the treasury adopted its present business-like policy of maintaining deposits with national bank depositaries only at points where actually necessary for the transaction of some essential government business and of fixing such deposits in direct proportion to the amount and character of the business transacted. Such business consists of the furnishing of cash to government disbursing officers for payroll and other expenditures upon checks drawn on the Treasurer of the United States and the acceptance of deposits of cash from depositors of public moneys for credit in the account of the Treasurer of the United States. To assure the necessity of such deposits the balances maintained with national bank depositaries are periodically subjected to analysis and adjustment upon that basis. This policy has been applied in a manner which is believed to be fair alike to the banks concerned and to the government, and has resulted in very material economies. On June 30, 1919, there were 1,331 national bank depositaries, including 566 inactive depositaries with fixed balances of $1,000 each, carrying aggregate government deposits of approximately $46,000,000, while on June 30, 1925, there were only 305 general national bank depositaries with total deposits to the credit of the Treasurer of the United States amounting to $6,514,708.01. When we consider that during the period covered by this readjustment the government has constantly been in the market borrowing money for its own requirements at rates of interest ranging as high as 6 per cent, while depositary banks pay but 2 per cent upon the government's deposits, the savings effected to the government are self-evident.

In conjunction with the adoption of this new policy the Secretary of the Treasury established a class of limited national bank depositaries which, under the terms of their designation, are limited to the acceptance of deposits made by postmasters and by the United States Courts and their officers for credit in their official checking accounts. As stated heretofore, however, the treasury does not regulate the balances carried with such depositaries, but simply provides the facilities for their safekeeping as required by the accountable officers. Such depositaries on June 30, 1925, numbered 875, and the total of court and post office funds carried therewith amounted to approximately $21,000,000.

Special Depositaries of Public Moneys

THE World War also brought into existence an entirely new class of government depositaries, which has, since 1917, been a most important factor in the government's financing operations, namely, the so-called special depositaries of public moneys. Such depositaries were first authorized under the provisions of the First Liberty Loan Act, and again under the terms of the Act approved September 24, 1917, (the Second Liberty Loan Act) as amended and supplemented. This legislation authorized the deposit with any incorporated bank or trust company subscribing to the various issues of bonds and certificates, the proceeds arising from their subscription payments thereto. To quote from the regulations governing special deposits "- - - - the maximum amount of deposits for which it will apply, the applicant bank or trust company should be guided by the amount of the payments which it expects to have to make, for itself and others, on account of bonds, notes, and certificates of indebtedness of the United States issued under authority of said Act. - - - - Any application may be rejected or the applicant may be designated for a smaller maximum amount than that applied for. After receiving the recommendation of the Federal Reserve Bank, the Secretary of the Treasury will designate approved depositaries." Such deposits necessarily have been of a temporary character as they are withdrawn from time to time, through the Federal Reserve Banks, to make current disbursements in the interval between quarterly tax payments. This system has made possible the sale of large issues of government securities without disturbance to the money market, which would have resulted if all payments had been made direct to the treasury. Its effectiveness in this respect is too well known to need comment here, and while, during the period of the war and for some years subsequent, when the government was faced with unusual expenditures and a large floating indebtedness, necessitating frequent refunding operations, these deposits could not be permitted to remain with banks for a very long period. It is evident, however, from the remarkable growth of this system that banks generally found it advantageous to qualify as "Special Depositaries" and to take advantage of the privileges afforded by such designation. In this connection, it is interesting to note that with the issues of certificates of indebtedness prior to the First Liberty Loan, 134 national and 100 state banks and trust companies in six of the Federal Reserve districts were the only ones making application and were designated as special depositaries, while on June 30, 1919, there had been designated a total of 9550 special depositaries comprising 4511 national banks and 5039 state banks, and total deposits carried with such depositaries upon that date amounted to $905,397,000.

Gradually Diminished

DURING the past five years, as a result of the diminishing scope of the refunding operations of the treasury, these deposits have gradually diminished in number and in amount. Nevertheless, special depositaries still occupy a most important place in the depositary system of the treasury, as evidenced by the fact that such depositaries on June 30, 1925, numbered 7645, and the total balances carried therewith amounted to $150,716,572.

Depositaries of public moneys are required to pay interest of 2 per cent per annum on daily balances, and must secure the deposit with approved collateral. Treasury Department Circular 176, amended and supplemented, covers in all respects the requirements for "General National Bank" depositaries, which are those national banks authorized to maintain on deposit public moneys for the account and credit of the Treasurer of the United States; also "Limited National Bank Depositaries" designated for

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The Coming Surtax Cut

By WILLIAM P. HELM, JR.

While Many Minds Are in Accord as to Its Desirability the Prospect for a Big Reduction Is Not Bright Because 60,000,000 Voters Are Interested in Having Something Done for Them as a Class and Congress Will Harken to Their Plea.

REDUCTION of the Federal surtax is in danger of being kissed to death by loving friends. Everybody, it seems, in Congress and out of it is for a maximum of minimum proportions. Not long ago I wrote more than 500 letters to members of Congress, asking them where they stood on the proposal to reduce the surtax. I was overwhelmed with replies, saying in substance:

"Put me down for surtax reduction. A maximum of 'steen per cent."

"Even Underwood's 13 per cent maximum is too high. Put me down for 10 per cent."

"Not more than 20 per cent at the highest; 15 would be better."

"Of course, I am for reducing the surtax."

"The government will get more at 15 per cent than it will at 25."

So went the pledges. Had I been running I could have read them. Everybody—barring a handful of those who always beg leave to differ—whooped it up for a slashing big cut in the surtax rates when Congress frames the revenue bill next winter.

Under the beneficent rays of a kindly summer sun, our solons also whooped it up for normal tax reduction. Most of them, too, signed in favor of inheritance tax reduction, although many of them preferred the term "readjustment." Nine out of every ten also went on record to reduce the so-called nuisance taxes, those irritating slapons still sticking to the prices of automobiles, jewelry, theater tickets and a few miscellaneous jimcracks, gewgaws and essentials. And here and there, like the note of a high tenor, could be heard a voice raised for reduction of corporation taxes.

In fact, Congress went enthusiastically on record for reducing taxes of all sorts—eliminating them, almost. And after that selection was rendered, a crashing crescendo boomed out from Southern and Mid-Western interests, entitled, "We think we should reduce the tariff, too!"

All of which, of course, is pleasant to some ears and beguiles the tedium of a weary recess. It also affords a pleasant view of the vista of congressional intentions. But does it augur a handsome surtax reduction? Emphatically it does not.

Proof Prospect of Surtax Cut

THE reason why it does not presage a big surtax reduction is obvious when we begin to analyze the state of the nation's finances. Looking with one eye at the estimated income and the other at the whittle down estimate of outgo, we find that the margin during the present fiscal year will approximate $400,000,000. That is a generous measure of the difference. There was also a margin of surplus during the last fiscal year, but our canny Secretary of the Treasury, taking no risk with a generous Congress, salted that margin away by using it mainly for debt reduction. So it will not be available for a tax cut.

Neither will it be available for new post offices, harbors, canals and what not in congressional districts. Congress will have, in naked terms, about $400,000,000 and little more for spending money when it meets next December. Plymouth, Vt., and Pittsburgh, Pa., have seen to that.

Now $400.000,000 will buy $400,000,000 worth of something, not $500,000,000 worth. Congress, big boss of the public purse, can spend it as it will. But it can spend it only once. It cannot possibly invest it twice or thrice over. Even Congress cannot repeal the laws of mathematics.

Let us assume, however, that Congress will spend the entire sum, or nearly the entire sum, for tax reduction. Or, to be more explicit, let us assume that Congress will forego spending any of that $400,000,000 surplus and will turn it back to the taxpayers in the form of a tax-cut. That assumption is the nth power of hope (the last Congress had before it bills for spending $4,000,000,000 more than receipts), but possibly it may work out. The question then is: How far can Congress go in cutting taxes with $400,000,000 to work on?

Under the present surtax rate of 40 per cent maximum, the yield last year was $353,000,000 or thereabouts. If all the surplus were applied to surtax reduction, surtaxes could be abolished entirely, leaving about $50,000,000 of the surplus to apply on tax reduction in other forms.

Could Wipe Out Normal Taxes

NORMAL taxes, at present rates, yielded about $321,000,000 last year. The surplus applied to normal taxes alone would eliminate them and leave a margin of about $80,000,000 to apply to reducing other taxes.

If applied equally to normal and surtax rates, the surplus could cut the combined revenue in half, and there would be left about $13,000,000 to reduce other taxes.

Suppose the surplus were not applied, however, to either normal or surtaxes, but were devoted wholly to reducing corporation taxes. That form of taxes could be cut about 50 per cent.

If the surplus were to be applied equally to normal taxes, surtaxes and corporation taxes, a cut of about 25 per cent in each would be possible.

So much for these regular forms of taxation. Now let us consider the so-called nuisance taxes. The record shows that the entire $400,000,000 surplus would not be sufficient to wipe out all the nuisance taxes alone, including the capital stock tax.

Obviously, if Congress eliminates some of the so-called nuisance taxes and reduces others, as its leaders want to do, there will be little left for reducing either normal and surtaxes or corporation taxes.

But that is not all that Congress wants and is urged by taxpayers to do. "Readjustment" of inheritance and gift taxes with the sign-post pointing downward is pressing for action. These taxes constitute the unknown factor, the x of the equation.

Manifestly, reduction in all these forms of taxation is highly desirable. Capital, with a big C, is pressing hard for a cut in every one. The push is lightest, perhaps, along the line of corporation tax reduction. It is hardest along the lines of surtax and inheritance tax readjustment. So far as capital is concerned, the impulse to cut normal taxes is almost negligible.

But only so far as capital is concerned. Out in the highways and by-ways there are, perhaps, 60,000,000 free American voters who, as yet, have not been educated fully to the doctrine that surtax reduction means money in their private pockets. They want theirs. And they are going to get it—get it before anybody else gets any share whatever.

Make no mistake; normal tax reduction is going to stand at the top of the list when pruning day rolls round. The individual voter, no matter what tax he pays, is going to be apportioned a liberal slice of the surplus pie, and that slice is going to be put on his plate before capital is considered. We have congressional elections next year, and Congress dare not do otherwise, even if it wanted to do otherwise, which it does not.

The whole trend of replies to my 500 letters to Congress shows unmistakably that normal tax reduction will be the first thing settled; that it will be generous; and that all other forms of tax reduction will wait upon it.

Indeed, there seems warranted the prediction that the personal exemption will be raised to $4,000 and possibly to $5,000; that the normal rate will start at 1 per cent and end at 4 per cent; and that surtax rates will not apply on incomes below $12,000 and possibly $15,000.

Such a program would wipe out half of the $400,000,000 surplus or more. Yet almost everybody in Congress is for a slashing big surtax reduction—after the individual taxpayer gets his share.

How, then, can surtaxes be dealt the wicked blow which every politician now seems eager to strike? For, obviously, other forms of taxes must be reduced, too; and that reduction must share, with the surtax, what is left of the surplus after the individual taxpayer is fixed up. Nuisance taxes, especially the tax on theater admissions and the tax on club dues, not to mention the tax on cheaper automobiles, are clamoring for a haircut. Can the barber turn them away? Not if he wants to hold his job.

Thus, to the understanding bystander, suffering from neither dyspepsia nor smoked glasses, the prospect for a whaling big surtax reduction shrivels when all these other forms of taxes are considered. For everyone knows we must raise money to keep the government running, even at its present slowed-down speed. Where is the money coming from? Taxes, of course. What kind of taxes? The taxes that come from the minority of voting power, to wit, capital.

The Sixty-ninth Congress is new, but the human nature which characterizes it is just the same old brand of human nature we had in the Sixty-eighth Congress. And it is not in human nature, either in Congress or out, to deny "my constituents" relief from tax burdens.

Further, my poll of Congress discloses the highly important factor of an uncontrolled Senate, so far as tax reduction is concerned. Politically, the Senate is nominally Republican by a reduced majority. For tax-cutting purposes, it is non-partisan. No party leader or boss can swing the United States Senate for any tax-reduction program. If the Republican majority voted as one, and if the Administration could phalanx it behind the White House program, surtax reduction probably would be the first thing attended to.

The White House, apparently, can do just that thing so far as the House of Representatives is concerned. There the Republican majority is so robust in its proportions that a few disaffections will not mar its team-work. The Ways and Means Committee, meeting in mid-October, will report, in all probability, just the sort of revenue bill that Calvin Coolidge most desires. Surtax reduction will be high, wide and handsome.

The House, in all likelihood, will pass the bill.

But the next revenue bill will be made in the Senate. And the Senate, my poll indicates quite clearly, will not pass such a bill as that which the Administration may put through the House. For in the majority ranks there is a group of spirited Senators who do their own thinking and vote as they believe their constituents, rather than party leaders, wish them to vote.

Whether they think crooked or straight is beside the point. Capper, Norris, Couzens, Brookhart, Frazier still are counted on the Republican side. Their votes are essential to pass a Republican bill. There are others in this balance of power group, but let us examine the statements of these, the leaders. Here is what they say:

Senator Capper—"I am in favor of reducing income taxes all along the line. All classes of taxpayers, big and little, should participate, share and share alike, in the benefits. I am in favor of adequate supertaxes on great incomes, but not to the extent of crippling business and industry. I believe the minimum income upon which normal tax is collected should be $5,000 instead of $4,000. I am not sure but that this minimum could be raised even another thousand or two."

Senator Norris—"The larger reduction should be on the smaller incomes. The surtax should be maintained."

Senator Couzens—"I favor raising the personal exemption to $5,000. The nuisance taxes should all be repealed."

Senator Brookhart—"I favor reduction by a horizontal percentage of probably 25 per cent, the exact amount to be determined by the Treasury needs."

Senator Frazier—"Reduction should follow quite closely the present ratio between normal and surtax rates. If any change should be made, it should favor greater exemptions of small incomes. The ratio of reduction should also be extended to the tax on corporations."

Democratic opposition, naturally, places revision of the normal tax reduction first on the list. Senator Simmons of North Carolina, whose rates were written, by compromise, into the present law, sums it up as follows:

"Reduction ought to cover all forms of Federal taxation and should be a fair cut all along the line, including surtaxes, normal taxes and miscellaneous taxes. The largest proportionate reduction ought, of course, to be given to those taxpayers who are least able to pay taxes.

"I do not oppose a fair reduction in surtaxes. Neither Secretary Mellon, however, nor any other outstanding representative of big business will be permitted to name the tax rates in the proposed tax reduction measure without earnest Democratic protest."

Back of the whole move to reduce taxes is the growing movement to reopen the tariff. If that is done, with resultant tariff cuts, the surplus of $400,000,000, of course, would be affected. One cannot give the same dollar back to the taxpayer and the importer, too.

But tariff reduction, except for its application to the national revenue and its direct bearing on tax reduction, is another story.

Public Moneys

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the sole purpose of receiving deposits made by United States courts and their officers and by postmasters for credit to their official checking accounts. Collateral to secure these two classes of deposits, and which must be deposited with the Treasurer of the United States, is limited to bonds, notes, treasury certificates of indebtedness of the United States, bonds of the Federal Land Banks, War Finance Corporation, Porto Rico and the District of Columbia; also bonds and certificates of indebtedness of the Philippine Islands at par, and the 3½ per cent bonds of the Territory of Hawaii at 90 per cent of market value, and other bonds of this territory at market value not to exceed par.

Those national banks and trust companies that have received designation as "Special" depositaries, under the authority granted by Act of Congress, approved Sept. 24, 1917, as amended and supplemented, are required to deposit collateral to secure their deposit with the Federal Reserve Bank of the district in which the depositary is located, as fiscal agent of the United States. Treasury Circular 92, amended and supplemented, describes fully the character of the securities approved for this purpose, as well as the regulations governing the deposit. It may be briefly stated, however, that the approved list is much broader in variety than allowed for the other two classes of deposits.

Good business methods, which the people of the United States expect of their Treasury Department, has dictated the present policy of government deposits, and as a result, not only the number of depositaries, but the amount of the deposits have been and are constantly being reduced.

In viewing the entire situation, however, appreciation is ever present in the minds of treasury officials of the effective support given by the banks of the country, generally, to the government during the World War period, not only through the subscription of the banks to issues of government securities, but in the manner in which they responded to the unusual demands for service through the medium of the special depositary system and the regular national bank depositary system.

Meeting of Minds

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thermore, he pointed out that such an influx of goods would inevitably create a certain amount of difficulty in bringing competition in the home market. The blunt conclusions were tinged with dark forebodings, yet Sir Josiah as chairman of a sub-committee presented a fourfold scheme for overcoming the difficulties of making reparation payments—and it was approved by the Congress. It suggested: 1. An expansion of Germany's exports, payment then being made in cash; 2. deliveries in kind or services; 3. international co-ordination of public works, and 4. the sale of railway, industrial and other German bonds in international markets.

Dr. Walter Leaf, chairman of the Westminster Bank, London, was elected President of the International Chamber for a two year term to succeed Willis H. Booth. Dr. Leaf is not only a banker, a noted economist, an adviser to the British Government on taxation and fiscal problems, but has for years been recognized as one of the world's foremost Greek scholars. He is well known in America.

The Shrinkage in Passenger Receipts Hits the Railroads

By W. A. LLOYD

Motor Competition Is Real Problem With Steam Railroad Lines. To Combat It, Carriers Operate Fleets of Trucks for Short Haul Business. Losses of Revenues from Passenger Carrying Material. Lines Eliminating Duplicate Services.

MOTOR competition with steam railroad lines is a very real problem these days. We used to think it was confined to New England and that only the New York, New Haven and Hartford and the Boston and Maine were the sufferers. But we find that it is now as acute in the Northwest and in California as it is in Massachusetts and is growing to be as great a menace to profits of lines in Texas as in Connecticut.

To combat it some roads have incorporated companies to operate fleets of motor trucks for short haul business. This has been done by the Pennsylvania. The Great Northern Railway has recently thrown down the glove to bus lines operating in its territory in Minnesota and has established routes of its own as feeders to its steam lines and as competitors of rival bus companies.

Passenger Receipts Shrink

AMONG the various reasons given by the receivers of the Chicago, Milwaukee and St. Paul for the failure of this road was shrinkage in passenger receipts. This is borne out in the annual report just published, which shows a reduction in passenger revenues between 1921 and 1924 of over $5,100,000, or about 20 per cent. In 1921 the number of passengers carried was 14,240,896 and in 1924 it was less than 12,000,000.

The receivers of the Chicago and Alton mentioned the effect of motor competition in their remarks to stockholders at the annual meeting in May. Said they: "Our local or short haul business is rapidly disappearing. This is principally because a large amount of travel has left the railroads and gone to the automobile or bus lines." In analyzing the passenger results of the lines running to Florida, one is impressed by the fact that, in spite of the great movements of passengers north and south during the past few years, the increase in long haul traffic has been frequently overbalanced by decreases in short haul, or local traffic. As the roads in the south improve this will probably continue.

To show the changes that have come about in the past five years a table has been prepared giving the passenger receipts of 1924 of about twenty roads and those of the best year (generally 1921) in the period chosen. This follows:

	Passenger Earnings, 1924	Recent High Point
Atchison, Topeka & Santa Fe	$48,154,635	$63,473,165
Chicago, Burlington & Quincy	26,522,642	31,396,050
Chicago, Milwaukee & St. Paul	21,768,171	26,915,456
Missouri Pacific	17,525,000	19,240,000
Southern Pacific	56,566,134	63,442,251
Texas Pacific	7,150,275	8,868,000
Chicago, Rock Island & Pacific	25,886,046	30,579,000
Union Pacific	32,635,301	38,170,000
Delaware, Lackawanna & Western	13,600,454	14,438,000
Chicago Great Western	3,909,610	4,885,112
Pennsylvania	147,523,905	155,065,297
Lehigh Valley	7,688,392	7,700,392
Maine Central	4,244,950	4,874,470
Bangor & Aroostook	788,445	956,320
Boston & Maine	21,309,338	23,622,145
Northern Pacific	13,167,942	17,075,000
Chicago Northwestern	28,872,654	37,386,000
Seaboard Air Line	9,809,309	11,015,000

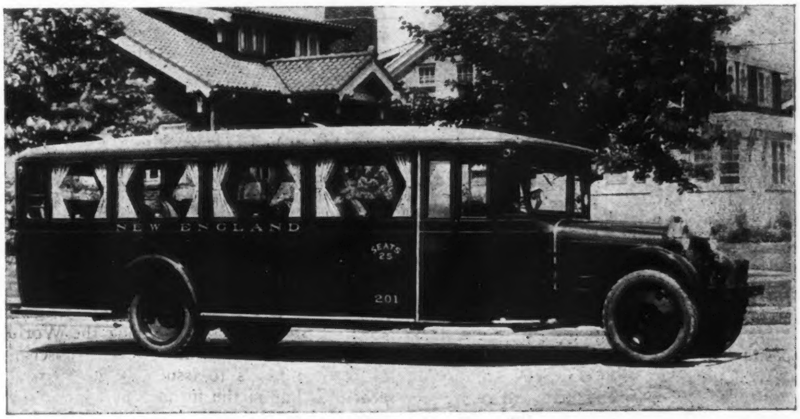
THE changes are quite startling. To begin with, the Atchison has lost over $15,000,000 in recent years. The Southern Pacific's shrinkage has been about $7,000,000, or a little more than that of the Union Pacific. This reflects the automobile competition in California, where there are more than 1,000,000 cars. The Chicago & Northwestern has fallen off nearly 25 per cent in passenger revenues and the Northern Pacific about the same. The roads that do an excursion business and have for years catered to short haul pleasure riding are the ones that have been most affected by motor lines and it is not too much to predict that some of their branch lines will soon cease to operate.

The loss of revenue, however, does not confine itself to the short haul business, for thousands. who annually went by train from New York City to Maine or to Canada or even to Washington or Florida, now travel by auto and the highways across the mountains and deserts of the west are each day in the year filled with cars whose occupants constituted some small part of the former transcontinental trains' passenger list.

Lower passenger rates will not greatly change the situation even if they were probable. The method of convenient and cheap locomotion has changed and the steam lines must face the fact that they have a competitor of ever-increasing strength and conserve their earnings by eliminating a great deal of duplicate and expensive service between common points.

Clearing House Secretary

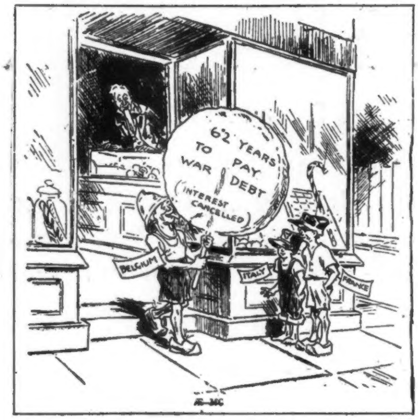
ON September 1, Frank W. Simmonds, Deputy Manager of the American Bankers Association, became the Secretary of the Clearing House Section, succeeding in that positon Mr. Donald A. Mullan, resigned. As heretofore, Mr. Simmonds continues as Secretary of the State Bank Division, the duties of both positions merely being assumed by one person.



Type of Motor Coach operated by N. Y. N. H. & H. R. R. Co. to Serve New England Towns Where Railroad Company Has Discontinued Rail Service

PEN VIEWS OF EVENTS IN THE ECONOMIC WORLD

"Next Please!"—Rodger in the San Francisco Bulletin.



"Where You Get the Most for Your Money"—De Mar in the Philadelphia Record.

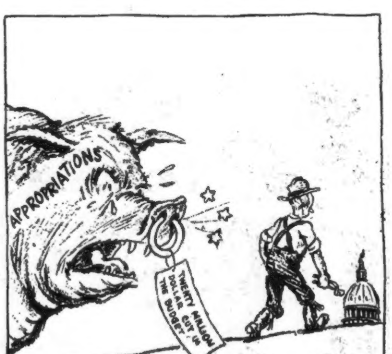
"Tuning Up."—Grover Page in the Louisville Post

"Never Again."—Sykes in the Philadelphia Public Ledger

"The Struggle for Second Place"—Rodger in the San Francisco Bulletin

"Tuning Up"—Dorman H. Smith in the Passaic Daily News

"In the Meantime."—Morris in the Passaic Daily News



"A Crimp Against Rooting."—Grover Page in the Louisville Post

"Private Business."—Grover Page in the Louisville Post

How the Federal Reserve Has Made Checks More Widely Acceptable

By W. RANDOLPH BURGESS
Assistant Reserve Agent, New York Federal Reserve Bank

More Than Two Million Checks Collected Daily Through Reserve System, With Face Value of $600,000,000. Time Required to Collect Out-of-town Checks Cut in Half. Country Banks Can Offer Better Checking Facilities to Their Customers.

IN the old days when Peter Brown, hardware merchant of Canyon, Colorado, came to settle his bills for the month it was quite a complicated process. The bill from the United Hardware Company of Madison, Wisconsin, bore the legend, "This bill payable only in Chicago funds." The Buffalo Steel Plow Company invoice called for a draft on New York. The St. Louis Screw Corporation asked for settlement in St. Louis funds. Brown's check book on the People's Bank of Canyon was not very useful in paying most of his out-of-town bills, and every month Brown had to go over to the bank and purchase seven or eight drafts on Chicago, New York, and other centers. He paid several dollars a month just for drafts.

Today when the time comes for Peter Brown to pay his bills it is rare for him to have to buy a draft. He can settle practically all bills with his own checks on the People's Bank. This is because, in general, invoices no longer specify that settlement must be made in drafts on any particular centers. Checks on the People's Bank of Canyon, Colorado, are good in every part of the country.

It seems a simple thing for concerns doing a national business to omit from their invoices a single line specifying what funds will be accepted in payment, but that omission reflects a transformation in the methods of check collection, a transformation which constituted a new and important step in the evolution of sound and efficient methods of business settlements in the United States.

Evolution of Business Settlements

PERHAPS the first step taken by the United States as a nation in providing adequate means for business and financial settlements was the passage of the Coinage Act of 1792, which gave the country a standardized coinage which might circulate at par value, 100 cents on the dollar.

Paper currency provided our next series of problems in business settlements. During the whole of the first half of the nineteenth century, we were trying various experiments in securing a satisfactory currency by which debts might be paid and business transactions settled. During that period our people were constantly under the necessity of scrutinizing every bank note which came to them, and they frequently incurred losses because paper money received could not be redeemed at its full face value. This condition was largely remedied by the passage of the National Bank Act in 1863-1865, which taxed out of existence the old state bank notes and provided for the issuance of a national bank note currency, secured by government bonds and redeemable at every national bank at par value.

Checks were the third means of business settlement which called for standardization. The second half of the nineteenth century, which was notable for the growth of organized industry, remarkable railroad expansion, and a corresponding financial development, was notable as well for the widespread development by American business and finance of a new means for making settlement for business transactions—the bank check. By the end of the century studies carried forward in the office of the Comptroller of the Currency indicated that between 80 and 90 per cent of the country's business was settled by check and only 10 to 20 per cent by the use of coin and currency.

The problems arising from the widespread use of checks were similar to the old currency problems. As the business man previously had scrutinized even the currency issued by perfectly sound banks to make sure it could be redeemed at its face value, without deductions, so at a later date he scrutinized checks to make sure that they could be turned into cash rapidly at par value, 100 cents to the dollar. The acceptability of checks as substitutes for coin or currency depended on rapid convertibility into cash, dollar for dollar.

Clearing House Introduced

THE first step in securing rapid settlement of checks was the introduction of the clearing house. The New York City clearing house, the first in this country, was established in 1853. Before that time each of the fifty-two banks in New York City sent a messenger to each of the other banks with packages of notes and checks. Each of the fifty-two banks kept detailed ledger accounts for each of the other fifty-one banks. Under this cumbersome practice daily settlements were impossible and a weekly settlement was made every Friday. This postponement of the day of reckoning and the abuses it fostered, together with the inefficiency of the old plan, made reform essential to any wide use of checks. The clearing house was successful immediately upon its establishment, although four of the original fifty-two banks could not stand the test of daily settlements, and were finally forced to close their doors.

The clearing house idea spread rapidly to most of the large cities and the amount of checks handled through clearing houses rose, as shown in diagram 1, from about one billion dollars a year, when only the New York Clearing House was in operation, to over 450 billion at present.

A Major Defect

BUT there was still one major defect in the check collection scheme—there was no simple economical method for collecting checks between different towns and cities; there was no nationwide system for the collection of checks corresponding to the city clearing house.

To collect checks drawn on out-of-town banks, each bank had to make special arrangements with special banks in other centers, and the machinery of check collection thus became a complicated maze of special relationships between banks. As a result check collection was expensive, slow, and uncertain.

The expense of check collection was of two kinds: The first expense resulted from the time required for collection. While the check was in process of collection someone lost the use of the funds, either the depositor of the check, or the bank, if it allowed the depositor to draw against the check before collection. To cover this expense most banks made an interest charge, sometimes called a collection charge, or required the customer to keep a balance sufficient to cover checks in process of collection.

The second kind of expense was incurred not by the bank collecting the check but by the bank paying its own check. It was the cost of providing funds to pay the check in a distant city. In theory the paying bank had to ship currency or pay the cost of maintaining a bank balance in a distant center. In practice, of course, checks presented to a bank for payment from other cities were largely offset by checks moving in the

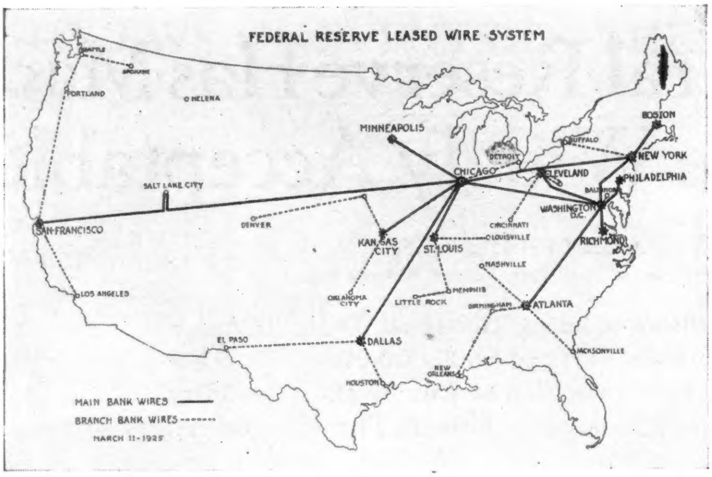


Diagram 2—Settlements for check collections and other transactions between various parts of the country, are made daily over the private wires of the Federal Reserve System. Thus bookkeeping by telegraph largely replaces currency shipments.

opposite direction, and only the balance between incoming and outgoing checks had to be settled. But because the payment of every check presented from a distance involved a possible expense it was the custom for most banks outside of large centers to make a small charge when they paid checks drawn on themselves presented from out-of-town. When they paid a check for $100 they deducted from 10 to 25 cents and paid only $99.90 or $99.75. This deduction from face value in paying checks was known as an exchange charge, because the bank making the payment was, in theory at least, exchanging local funds for funds in some other center. It was in theory a transaction in inland exchange; and in those days, there was frequently a premium or discount on inland exchange.

Some banks when collecting checks for their customers absorbed the exchange charges they had to pay, but most banks passed the charge on to the customer. If the business man accepted in payment of a bill a check for $100 drawn on a distant bank, it was worth not $100 but, say, $99.75. It was largely to avoid this loss, which on thousands of transactions amounted to a considerable sum, that the United Hardware Company, the Buffalo Steel Plow Company, and the St. Louis Screw Corporation of our illustration declined to take checks from Peter Brown drawn on the Canyon, Colorado, bank.

Expense, Delay and Risk

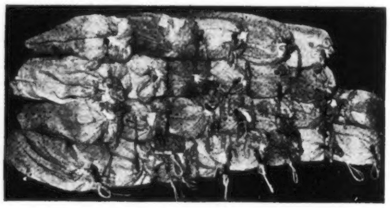
BUSINESS men and bankers were constantly searching for ways in which they could avoid the payment of this exchange charge. One way of avoiding the charge was, as we have seen in the case of Peter Brown, for wholesale houses to accept only drafts on large nearby centers. Another way was to accept out-of-town checks but make special arrangements to present them for payment, not by mail from a distance, but from a nearby town; so that the paying bank would have no occasion for charging exchange. If a St. Louis bank received a Canyon, Colorado, check it might send it to a bank in Denver, Colorado, which regularly collected checks on the Canyon bank, and by reason of its special arrangements could make the collection without being charged exchange.

But the St. Louis bank might not have a correspondent in Denver and therefore might send the check to a Chicago bank which did have such a correspondent. A check might be sent to three or four cities before it was collected. Indirect routing of this sort added further delay to a check collection scheme, which, for lack of any nationwide system, was slow at best.

Delay of this sort increased the amounts of interest which banks had to charge to cover the use of funds between the deposit of checks and their collection.

Delay also increased the risk of non-collection. Every day which elapsed before the check was presented for collection increased the danger of return for lack of funds, and the danger from the failure of some bank handling the check on its long journey. Each day of delay before the depositor of a check was notified of its non-payment delayed the presentation of claims and increased the risk of non-payment. Kiting of checks was encouraged.

The old lack of system in collecting country checks thus bore fruit in expense, delay and risk, and banks were constantly searching for means by which these evils might be corrected. Many city clearing houses organized country check departments to systematize, in part at least, the collection of out-of-town checks. Many country banks situated near cities arranged to have checks drawn upon them settled through their correspondent in the city clearing house. These and other schemes were only partly successful, and when Federal Reserve legislation was under discussion, there was general insistence that it should include a nationwide plan for check collection.



Twenty-six sacks of mail represent the daily average volume of about a quarter of a million checks handled by the Check Department of the Federal Reserve Bank of Chicago. All Reserve Banks together handle eight times this amount.

A New Mechanism

THE Federal Reserve System provided a mechanism for nationwide check collection, to do very much for the banks of the nation what the clearing house does for the banks of the city. Twelve Reserve Banks, with twenty-three branches, provide offices within easy reach of every bank in the country. Ten thousand member banks, with two-thirds of the country's banking resources, keep their reserves deposited at these Reserve Banks—a natural basis for check settlements. Debits from collections can be charged to these reserve deposits, and credits can be added to reserve deposits.

For settlements between the Reserve Banks there has been set up that ingenious device, the gold settlement fund, lodged in Washington with the Federal Reserve Board, and represented by a gold credit on the books of the Treasurer of the United States. This fund is owned by all the Federal Reserve Banks, and settlements between Reserve Banks are daily effected by bookkeeping entries, on telegraphic advice, changing the proportion of the gold fund which the different banks own.

In these ways the Reserve System provides channels through which the funds represented by checks may flow readily from one part of the country to another, and through which settlements may be made with great rapidity and with a minimum of expense.

The operation of the Federal Reserve check collection mechanism in its simplest form is as follows: When Peter Brown's check on the People's Bank of Canyon, Colorado, comes to the St. Louis Screw Corporation, it is deposited with the Third Trust Company of St. Louis, and collection takes the following course:

1. The Third Trust Company deposits it for collection with the Federal Reserve Bank of St. Louis.
2. The Federal Reserve Bank of St. Louis sends it to the Denver branch of the Federal Reserve Bank of Kansas City.
3. The Denver branch sends it direct to the People's Bank of Canyon.
4. The People's Bank settles with the Denver branch in Denver funds or Federal Reserve funds.
5. On receipt of this remittance check the Denver branch gives the Federal Reserve Bank of St. Louis credit immediately. On the same day the Federal Reserve Bank of St. Louis gives the Third Trust Company credit. An immediate bookkeeping transaction between Reserve Banks, effected by telegraph, thus takes the place of mail remittance.

As a matter of practice, the average time it takes for the collection of a check drawn on any point has been established by experience and is reflected in a printed schedule which each Federal Reserve Bank prepares and distributes to its members. Accordingly the Federal Reserve Bank of St. Louis automatically gives the Third Trust Company credit for Peter Brown's check five days after it is deposited. Before the Federal Reserve System it would have taken about ten days.

There are other special arrangements which have been worked out to secure greater speed of check collections. Some of the Reserve Banks have their own post offices and send their mail pouches direct to mail trains, and thus save the few hours that would be required to send mail to central post offices. Many member banks handling large amounts of checks have made arrangements to send checks directly to Federal Reserve Banks of other districts instead of through their own Reserve Bank. Settlement, however, is effected on the books of their own Reserve Bank. A number of county clearing arrangements have been devised by which banks in the same county may exchange checks directly and the balances may be settled at the Federal Reserve Bank.

Cause of Exchange Charge Removed

THE exchange charge formerly made by many banks in paying their own checks was made, as we have seen, on the theory that it cost a banker something to pay his out-of-town checks, either in the shipment of currency or in maintaining out-of-town balances. With the existence of the Federal Reserve collection system the occasion for such exchange charges disappeared. It no longer costs the banker whose checks go through the Federal Reserve collection system anything extra to pay his checks from out-of-town, because these checks are presented through the nearest Federal Reserve Bank, or branch, and not from a distance, and the Reserve Bank pays the cost of any currency shipments necessary. It is thus logical that under the law the Federal Reserve System can accept and collect only checks payable at par, without exchange deduction. This elimination of exchange charges for most of the country's checks removes one of the principal causes of delay.

The Federal Reserve System saves time in collecting out-of-town checks in three principal ways:

1. Systematic handling.
2. Telegraphic settlement between Reserve Banks.
3. Elimination of the indirect routing which formerly prevailed to escape exchange charges.

The time for collecting checks under the Federal Reserve System varies from one day in the case of nearby cities, where there are Reserve Banks and branches and where checks are presented at the local clearing house, to eight days in the case of the most distant transcontinental points. In general, the time required to collect checks has been cut in half.

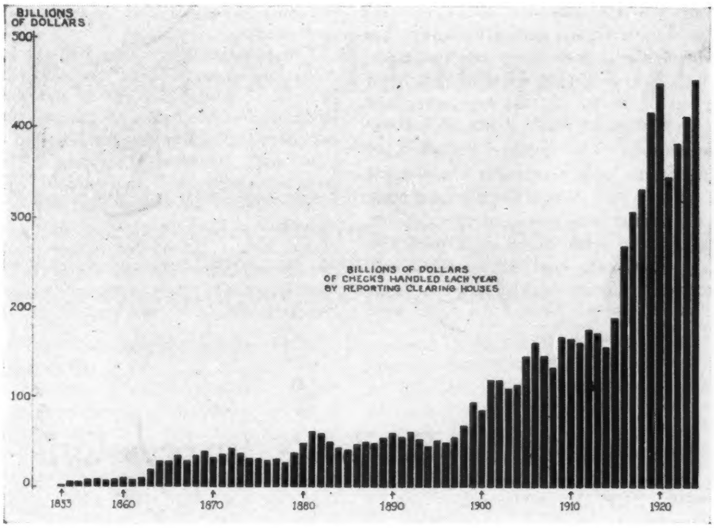


Diagram 1—Growth of clearing house operations in the United States

Money Saved

THE Federal Reserve collection system saves money for banks and business in the following principal ways:

1. Reduction in the number of times checks have to be handled.
2. Handling large numbers of checks by quantity methods.
3. Reduction in amount of currency shipments.
4. Reduction in number of out-of-town drafts.
5. Reduction in interbank balances for collection purposes.
6. Reduction in accounting costs.
7. Absorption by Reserve Banks of costs of check handling and currency shipments.

There is no way of computing the total money saving to the country from the operations of the system, because the saving reaches all the way from the small country bank to the large city bank, and from the small business man or farmer to the large industrial enterprise. The total is certainly many millions of dollars a year.

There is similarly no way of knowing just how the benefits of the system have been divided between banks and their customers, because banking customs differ so widely in different parts of the country.

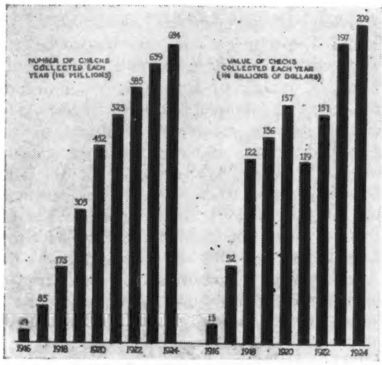


Diagram 3—Growth of the Federal Reserve Check Collection System

Certain of the savings to customers are perhaps more direct and obvious than the saving to banks. The Peter Browns who sell hardware and other merchandise in all parts of the country no longer have to buy drafts or keep accounts in the large cities to pay their out-of-town bills. Wholesale houses no longer suffer the deduction of exchange charges when they collect their out-of-town checks. The interest (or collection) charges which business men pay their banks for advancing the amounts of out-of-town checks, while they are being collected have been much reduced because the time of collection has been shortened and the exchange charge generally abandoned. Of the 300 clearing houses in the United States only twenty-five now require banks in their membership to make charges of this sort. Loss through non-payment has been reduced because checks are presented more rapidly and notification of non-payment is received more rapidly. All these are direct and obvious money benefits to business resulting from the Federal Reserve collection system.

To the extent that banks used to absorb the cost represented by exchange and interest charges they have been direct gainers from the new system. But most of the benefits to banks have been somewhat less obvious and direct, such as reduction in the time taken to collect and thus a reduction in risk of loss, reduced clerical labor in handling and accounting for checks, reduction in the amount of currency shipments and payment of costs of such shipments by the Reserve Banks, and reduction in the number and balances of out-of-town bank accounts. Perhaps the least obvious but most important benefit has been making the country check an acceptable means of payment for out-of-town bills. The country bank can now offer to its customers checking facilities which before could only be offered by the city bank. The country bank can, therefore, retain deposits which before would have been diverted to cities.

Every new invention and every forward step in industrial and social evolution has brought with it necessary readjustments. When the cotton gin was invented it threw many out of work. So the typewriter and the adding machine made shifts in occupation necessary. The linotype forced many a typesetter to learn practically a new trade or be out of a job. When the National Bank Act taxed state bank notes out of existence, it deprived the state banks of a profitable business. When the city clearing house was introduced a number of banks, as we have seen in the case of New York City, were not able to adjust their operations to the new scheme.

The establishment of the Federal Reserve collection system, based on par payment, has made radical changes in this phase of banking; but the banks of the country have adjusted themselves to the changed conditions with remarkable rapidity. The collection system was inaugurated in July, 1916. Today, after less than ten years, it is estimated that 98 per cent of the checks drawn in the United States are payable at par through the Federal Reserve System. The Reserve System now handles for collection probably 95 per cent of all out-of-town checks. The twelve Reserve Banks handle over two million checks a day for collection, with a value of 600 million dollars. The total value of checks collected each year is well over 200 billion dollars, an amount equal to about five times the country's total bank deposits. This work is done without charge, and checks are collected in about half the time it took under the old plan.

The presence of this collection system explains why the check drawn by Peter Brown in Canyon, Colorado, has come to be as acceptable a means of settlement as the check drawn on the big city bank.

A Maine Banker's Impressions of the Association

THROUGH the functioning of a well-established national organization all business in the class it serves receives constant benefits, and in no commercial endeavor is this statement more accurate than in the business of banking.

In its scores of activities The American Bankers Association renders services for all banking which would be impossible for individual banks to render for themselves even though cost were not a factor. That most bankers realize this is shown by the strong membership of the Association but the value of the Association to banking is set forth in a more definite way in a letter written to the Maine banks by H. F. Libby, a member of the Executive Council from that state.

"The first impression I would like to make real to you," he wrote in reference to the annual meeting of the Executive Council at Augusta, Ga., "is the power that the Association is wielding in the formation of public opinion on banking and related subjects. We all know that what is good for banking as a whole, in the long run is the best thing for our particular institution and the publicity work of the organization is a real factor in educating the people in banking matters.

"Another impression which I would emphasize is regarding the seriousness and efficiency of the work accomplished by the officers of the organization itself, its directors and committees, whose work is focused at the annual meeting of the Executive Council such as the one just held.

"I will quote from the opening remarks of President Knox. He said: 'I have been, as you know, in close touch with the administration office during my term so far and I am happily situated in that I am right on the premises. I want to give my personal testimony here to the efficiency with which that office is now being run and to the remarkable spirit of cooperation that there is pervading all departments and to the expedition with which the work of the Association is carried out. No one who has not been on the ground and watched just what was going on can appreciate the amount of detail work that there is going over the desks in that office. I want to compliment everybody in the office, from the Executive Manager down, for the very excellent work that they are doing. It is a big job to keep in touch with 22,000 banks all over the country and to handle the various requests that they make for information, for advice, and for the thousand and one things. All of this is met promptly, courteously and efficiently. I do not see how the work of the Association could be carried on if it were done in the way that we used to try to carry on the work years ago. There is a splendid efficiency and a splendid cooperation there now which makes very much for better service in every department of the Association.'

"I regard President Knox as one of the ablest and most energetic presidents that the Association has ever had. I wish to call your attention to its membership. There are now 28,398 banks in the country and out of that number 21,143 are members of the Association, or about three-fourths of all the banks in the United States.

"Executive Manager F. N. Shepherd said: 'Benefiting by the accumulated momentum of past efforts projected through the various publicity avenues of your Association, the banker has become an icreasingly wholesome force in business and public affairs. The utterances of your Association and its officers are today accorded a currency by the press and a deference by the public which lays upon you a tremendous responsibility for right thinking and careful speech.'

"It is impossible, of course, to give a resumé of all the reports, but one cannot read the accomplishments of such committees as the Committee on Taxation, on Federal Legislation, on State Legislation, of the Legal Department and the Insurance and Protective Committee without realizing the effective quality of the work being accomplished; for example, the work of the Association on the complicated subject of the so-called Branch Banking Bill; the passage of the Federal Arbitration Act; the successful keeping of the Federal Government out of the Savings Bank business; the effective assistance in many matters of State Legislation; and the work being done by the Agricultural Commission, especially in bringing the farmer and the banker into a better understanding of each other's business.

"The men who are doing the actual work are busy bank men, most of them holding offices of responsibility in their own organization, and were it not for the efficiency of the staff, the effectiveness of the Association could not possibly be maintained.

"I believe the members can obtain very much increased benefits from membership in the organization by keeping in touch more closely with the secretaries of the various divisions to which they belong. Information and help on many points in which you may be interested are available without expense of time or money."

Membership Dues

ON September 1, the beginning of the American Bankers Association's fiscal year, certificate-drafts for membership dues for the year ending August 31, 1926, were sent to all members of the Association. It is gratifying to note that a very large percentage of members have remitted, thus indicating their loyalty and a desire to cooperate in the great work that is being carried on in the interest of the banking fraternity. The membership is approximately 22,000, or 75 per cent of all banks. There is a large amount of work in the collection of dues and it is the desire of the officials that the collection be completed at an early date, thus eliminating unnecessary correspondence and delay.

Under the by-laws dues are payable in advance on September 1, and the constitution provides that non-payment within thirty day after they are due shall result in the forfeiture of all privileges of membership until payment thereof, and failure to pay such dues within three months after they are due shall result in forfeiture of membership. Those who have not remitted are requested to do so promptly. If the certificate-draft has been misplaced, the schedule of membership dues will be found on page 115 of the August, 1925, issue of the AMERICAN BANKERS ASSOCIATION JOURNAL, and checks may be mailed accordingly.

REMITTANCES SHOULD BE MADE IN NEW YORK FUNDS DIRECT TO OUR DEPOSITORY, THE AMERICAN EXCHANGE-PACIFIC NATIONAL BANK, NEW YORK CITY, AND CHECKS MADE PAYABLE TO THE ORDER OF THAT INSTITUTION.

The Credit Field in Transition

By W. H. STEINER

With Ever Growing Proportion of Business Done on Credit, Number of Organizations Assembling Information Grows. Credit Checking Services Increase. Special Safeguards Developed to Enable Heavier Advances With Fair Security to Creditor.

WE are today in the midst of a period of great increase in the use of credit. An ever growing proportion of business is being conducted by means of credit, instead of by the use of cash. This is not a new tendency, to be sure; but it has been vastly accelerated of recent years, and has shown some new phases.

Remarkable, indeed, has been the attention paid to a number of special fields hitherto more or less backward in the use of credit. American enterprise has devoted special attention to adaptation of the credit principle developed in the field of general business to a host of special cases. Retail trade, for example, has witnessed both the charge account and the instalment sale. The average man meets his bills when pay day comes around, at which time he also pays off in part the debt he incurred to obtain the automobile he is driving or the electrical appliances his wife is using. In the aggregate, his payments reach a tidy sum.

Wholesale trade, moreover, has not lagged behind. Emphasis upon selling has caused increased attention to be directed to all possible aids or adjuncts, and credit has become the handmaiden of salesmanship. To meet the business man's needs, the finance company which takes instalment paper that the banks cannot well handle, in many cases also turns into cash some of the open book accounts of manufacturers and merchants.

Changing Views on Loans

BANKING, too, has seen increased reliance placed upon it. The finance companies, after all, get a large part of their funds from the regular banks. In effect, what such companies do is merely to undertake the necessary credit work and continued supervision of the credit risk, which they guarantee to the banks from whom they themselves borrow. Even more important, however, has been the increased direct reliance placed by business men upon their banks. Borrowing by a concern direct from its own bank tends to be heavier in proportion to its own net worth, and such borrowing is tending to become continuous.

The older view that a concern should clean up its loans at the bank regularly for a part of each year has often been honored more in the breach than in the observance. Applicable to the seasonal industry, those lines with a volume of business fairly steady throughout the year have chafed under it. If of fair size, they have merely opened lines of credit with several banks, and have cleaned up with one by borrowing from another. They have had recourse to Peter in order to pay Paul.

This fact has caused some bankers to become rather skeptical of the older theory of liquidity as applied to loans and to stress shiftability instead. In last analysis, they say, the borrower can often pay up only if he ceases operations; hence the liquidity is at best potential; under such circumstances, the really important thing is the ability to sell his paper to some other lender who has surplus funds at the moment.

Nor has investment credit lagged behind commercial credit. The old prejudice against having industrial corporations issue bonds is breaking down, while the great use of the corporate form of organization has caused a mass of industrial securities to flood our exchanges. To take the most recent development, the urban real estate boom of the last few years has been sustained in large part through the fact that the mortgage bond has been extensively carried over into this field, and has opened up new sources of funds for it.

Is Credit Overdone?

ALL in all, therefore, reliance upon credit has increased tremendously, and its use in special fields has been particularly cultivated. In fact, there is today a widespread feeling that the development has been overdone, and that credit is far too easy. Many bankers and business men, as well as students, have voiced this sentiment. They point to the great instability of certain lines of business which show a heavy turnover of members, and point as well to our record of business failure. In addition, they believe that, in certain fields, a highly expanded or rather greatly inflated volume of credit exists, which in their view has underlying potentialities of danger. Notably do they point to instalment and automobile credit. And, in so doing, they raise the social issue as well, feeling that a weakening of moral fibre must inevitably result.

So much for the facts of the case. Whatever our conclusion may be, it remains true that in the meantime business itself has not sat idly by and merely let the volume of credit grow without devoting effort to learn how to handle it. Business men and bankers have paid increasing attention to credits. Not only have they discussed credit problems, but they have developed more and more effective methods for use in the conduct of their own credit work. The old style credit file existing solely in the individual's memory and relying upon facts tucked away there, has become obsolete, as has analysis relying solely upon hunches to treat each individual case entirely separately and apart, without studying and applying the lessons to be learned from other cases more or less similar in certain phases.

The well organized and systematically operated credit department has become recognized as indispensable to banks and business houses. Credit men, too, have not been satisfied with individual experience and results. They have cooperated with each other—the mercantile credit men under the leadership of the National Association of Credit Men, the bank credit men under the leadership of the Robert Morris Associates. There is today far freer exchange of information, and, even more important, far more recognition by credit men of their common interest, which has led to united action in approaching credit problems.

> ## Will He Pay?
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> *IN noting some present tendencies in credits, the author observes the vast duplication in the assembly of credit information. One by one various organizations have entered the field and the result is a tremendous body of credit knowledge. The problem is how it can be coordinated in order to yield effective results. Efforts to make it usable are reflected in the growth of credit checking services as well as the increasing discussion of credit standards. He finds the entire field of credits is today going through a transition with respect to methods in order to cope with the heavy demand for credit.*

Three Significant Developments

ASIDE from the solidarity of interest thus achieved, the more significant developments to date for grappling with the credit problem seem to fall under three heads:

1. Increase in number of organizations engaged in compiling credit information and shift in emphasis placed upon various classes of data.
2. Development of technical methods of analysis, in particular establishment of standards and ratios in statement

analysis, and extension of credit checking services.

3. Development of special safeguards designed to enable relatively heavier advances to be made in particular fields by affording great protection to the creditor, either through supervision, lien or guarantee, or a combination of them.

Banks tend to get their credit information at first hand. They rely upon primary, not secondary sources. But the same is not true of business houses, who on the whole often prefer to delegate to others the task of compiling the varied information they need to pass upon the credit risk. The general mercantile agencies, Dun & Bradstreet, have long supplied the foundation for the credit work of the business concern. But alongside of them exist a host of so-called special agencies. Some of these have very elaborate organizations, others are merely single investigators; some publish rating books and prepare regular reports, others merely investigate special topics as required in the individual case. In fact, the one thing these organizations have in common is the fact that they confine their attention either to a certain territory, or, more often, to a certain industry. As is well known, they try to make their work on the smaller list of names they cover both intensive and speedy, paying special attention to those features peculiar to the trade in question.

Trade Associations Active

CLOSELY akin in many ways to these special agencies have been the increasing number of trade associations which have undertaken one form or another of credit service to their membership. Some of them, in fact, have practically confined their attention to credit work. The trade association credit bureau is found everywhere; all lines which face a real credit problem, as reflected in a bad debt loss percentage, have seen it make its appearance. Such association activity, too, has made possible a greater standardization of practice and a more united approach for better credits in the industry, not primarily through formal action and agreement but more largely through a process of education and of information cooperation. Terms of sale and collections have been under scrutiny as well as credit extension. The exact limits to which trade organization action is subject have long been in doubt, but have been considerably clarified this spring. A court decision some months ago upheld reasonable joint action for better credits, in particular circulation of a list of past due customers to whom members agreed to sell only for cash, as not in violation of the anti-trust laws.

Few associations, however, have gone as far as this in their credit activities, although some small, compact bodies work very closely with their membership in following credits. In the actual scope of their work associations in fact differ greatly. Some practically operate a special mercantile agency on a cooperative basis. At the other extreme, some merely prepare a weekly or monthly bulletin containing various credit developments in their line, perhaps also trade abuses and lists of past due accounts, though without any recommendations to their members. Some again operate a collection bureau, which is generally regarded as peculiarly effective in obtaining speedy results at small expense.

The backbone of association work, however, has been the interchange of ledger information; that is, the actual statements of creditors as to how debtors pay their bills. Many bodies obtain such data from their members, from which they compile reports showing, for the debtor in question, the amount owing each reporting creditor (who is however not named), the amount past due, the highest credit, the length of time sold, and other significant facts bearing on his desirability as a customer from the credit man's point of view. While both the general agencies obtain such "trade information," as likewise do many special agencies, credit men have often emphasized the thought that it should not be made an article of commerce, but should be interchanged freely among credit men for their mutual benefit. Reciprocal interchange, they call it, to emphasize the fact that the house contributing its experience receives in return therefor a copy of the complete report. Such interchange they have conducted both through their trade associations and through the National Association of Credit Men. In many centers, local associations of credit men operate an interchange bureau, and many of these bureaus are linked together in a national system whereby information may be interchanged between bureaus so as to achieve a nation wide interchange of data.

Too Many Inquiries

MANY are the tributes paid to ledger experience. It is praised as giving actual, concrete fact, not mere opinion. And the bureau has been stressed as an economical means of assembling this most valuable class of information, at the same time that it obtains a well rounded picture of a debtor drawn from a variety of sources. It is termed efficient as well as economical.

But many are the complaints that are being made by business concerns which are feeling the burden of inquiries under the system. Direct inquiries made by other houses seeking information are not proving most burdensome, but rather the volume of inquiries received from the regular agencies, trade associations, and credit men's bureaus. Not only is this true, but the scattering of effort in compiling this information, besides involving waste, inevitably means loss of efficiency. To be useful, an interchange report must be reasonably complete, or at least representative. If too many organizations endeavor to assemble ledger data, there is not a sufficient quantity concentrated at any one place to afford an adequate picture of the condition of any individual debtor.

Just where to draw the line it is difficult to say. But there is today grave danger that excessive scattering of effort in assembling ledger experience will weaken the entire system; first, by resulting in inadequate reports, and second, what is perhaps more important, by causing a distinct reaction upon the part of business concerns as a whole who, after all, must supply the information. Some organizations which assemble such data have recognized the danger and through careful regulation and otherwise have attempted to minimize inquiry and keep business houses "in line," but no cooperation exists between different organizations.

Credit Checking on Increase

CREDIT men have displayed increasing interest in technical methods of analysis, in order to make most effective use of the mass of information available to them. A number of trade associations have not remained content with mere assembly of ledger information. Instead of confining their activities to procuring and dispensing information, they have added their recommendation to ship or not to ship the specific order of goods about which the member inquires, or at least their judgment of the risk. Some of them merely give their recommendation and furnish no information whatsoever.

The thought on which this proceeds is, of course, that the association can obtain a better balanced picture of the risk, that its credit work can often be made more effective than that of its members who frequently do not know how to a read a report, and that through constant inquiry its view can be kept thoroughly up to date. The credit men's organizations have opposed the practice strongly as tending to minimize the judgment of the individual credit man, although the individual member is of course free to be guided by the conclusion, or not, just as he sees fit.

Regardless of the merits of the controversy which has been waged over it, the fact remains that credit checking in this manner seems to be on the increase. Several large commercial organizations which formerly interchanged information have gone over to checking almost entirely, and an increasing number of trade associations have taken it up, especially in New York. Its stronghold seems to be the textile and apparel industries—lines in which there is a heavy turnover among buyers, many of whom have but limited capital, and frequent shift in credit standing, while many of the sellers although experienced in production and selling are utterly inexperienced in credit matters.

The commercial organizations, though not to the same extent as the trade associations, endeavor systematically to analyze the customer's normal buying needs, instead of relying entirely upon the skill of their credit men. They study credit needs in the light of merchandising conditions, so as to ascertain the credit basis afforded by the concern's operations. On the basis thereof, they reach a decision as to terms of sale and line of credit to be allowed currently, such as three orders of $1,000 each a month. They then watch the account, noting dangerous or fraudulent tendencies such as unusual volume of inquiries, past due accounts, new orders, larger credits, or collections placed against the concern. Instead of leaving the individual seller to note such tendencies from an interchange report, they specifically note them and take steps accordingly. At the close of the season, too, the organization may conduct a special survey to ascertain whether the individual buyer is carrying over any of his indebtedness, or is entirely cleaned up. Regardless of the judgment

passed upon credit checking, it cannot be denied that the work of these organizations presents a novel and suggestive aspect.

Study of Ratios

OF more immediate interest to the bank man is the study of ratios or standards in statement analysis. The pioneer studies of Alexander Wall, now secretary-treasurer of the Robert Morris Associates, almost a decade ago blazed the trail which today has become a leading highway for the credit man. Witness the number of articles on the subject, and the concrete studies of actual groups of statements by those anxious to learn from the experience of their fellow concerns. The bank man, as is well known, centers his analysis around the financial statement, so that he may well be expected to display keen interest and take a leading part in this development. But the mercantile credit man is likewise interested. Business men in general, and accountants as well, have been quick to realize that the ascertainment of definite standards based on actual experience of representative concerns in their line gives them a measure of utmost value in testing the operations of the individual concern. They have therefore experimented with a variety of ratios or comparisons between statement items and have applied them to published reports of corporations as well as to unpublished statements of individuals and partnerships.

Their estimate of the value of the information is shown by the fact that a number of accounting firms serving certain lines of business today regularly compile such figures for these industries. An increasing body of such financial standards, as well as data with respect to operations, costs and earnings, is becoming available, and the movement is going hand in hand with—in fact, is becoming one phase of—the broader movement for a more thorough knowledge of general business practice, to the end that, with more complete information will come more intelligent operation or conduct of business than heretofore.

Size of Advances on Mere Promise to Pay

THE greater reliance today placed upon credit and the effort to extend it to specific fields previously more or less uncultivated, has also been accompanied by an interesting development. Standard credit practice considers that size of advance which may safely be made against the mere obligation or promise to pay. But if the customary practice were rigidly adhered to, much of the credit now in existence would never have seen the light of day.

To bring it in being, special devices have been necessary. These are three-fold. Closer supervision of the debtor perhaps accompanied by periodical reduction of the principal by means of instalments, represents one method of achieving greater safety, hence of granting a larger credit in first instance. Another method is by taking a specific lien on goods sold. This is really only the old collateral loan device, except that, instead of taking a lien on property which the buyer possesses, the seller takes a lien on the goods he sells. Third among the methods is that of the guarantee, which is merely of course application of the idea of endorsement. It puts several names, or at least one additional responsible name, on the paper.

The devices are not novel in and of themselves; what is novel is the widespread use made of them, and their adaptation to special credit fields. It is readily observed that they are not especially applicable to general business. Larger credit, it is true, may cause a seller to work closer with a buyer, but would not make him exercise nearly as close a supervision as that of a finance company which discounted a concern's accounts receivable.

Instalment payments accompanied by a lien on the goods has had its vogue largely in retail sales of articles of equipment to users. The conditional sale, chattel mortgage, or lease agreement helps protect the seller, or the institution which finances his transaction, in the case of the automobile or electrical appliance industries. The guarantee helps to protect the makers of personal loans to individuals by making the latter's friends liable if necessary, while it helps to safeguard banks which buy paper from finance companies chiefly by making a surety company liable in case the finance company defaults, but perhaps also by reimbursing the finance company in case the latter's own customers default. Again, it may help to safeguard the real estate mortgage bondholder by assuring him of payment if necessary of principal and interest by a surety company for a fee of say ½ of 1 per cent per annum during the life of the guarantee. Or, to take another illustration, the responsibility of a warehouseman may be guaranteed by a surety company, so that a bank can readily take his receipts as collateral for loans.

Some of the developments cited may appear to the banker rather removed from his sphere of operations, hence of no more than passing interest to him. But it is well to bear in mind that the banker is vitally interested in the soundness of the general credit structure. Furthermore, the developments are in fact at most one step removed from him. Upon the protection afforded his customers, depends in last analysis his own protection. Hence he should watch these tendencies for their immediate influence upon him in his loan operations, as well as for any reflex action of a technical kind upon banking as distinct from mercantile credits. The entire field of credits is really a unit, and the banker stands at its center.

Convention Calendar

STATE

Date	Association	Place
Sept. 15-16	Kentucky	Louisville
Sept. 16	Wyoming	—
Sept. 16-17	Indiana	West Baden
Sept. 21-22	New Mexico	Las Cruces
Oct. 21-22	Nebraska	Omaha
Nov. 6-7	Arizona	Phoenix

OTHER ASSOCIATIONS

Sept. 28-Oct. 1—A. B. A. Atlantic City, N. J.
Oct. 14-16—Financial Advertisers' Association Columbus, Ohio
Dec. 2-5—Investment Banks Assn. of America St. Petersburg, Fla.

New Books

THE DUTIES, RESPONSIBILITIES AND LIABILITIES OF BANK DIRECTORS, by F. Lee Major. 183 pages. The Macmillan Co., New York.

A book phrased in simple terms, tells the duties of bank directors, and gives the material to enable a director to go about the intelligent performance of them. The author explains the best methods for directors to follow in making an audit of the bank and suggests an outline of procedure for directors, who desire to live up to their duties and responsibilities, and avoid incurring unnecessary liabilities.

LABOR ECONOMICS by Solomon Blum. 535 pages. Price $4. Published by Henry Holt and Company, New York.

This book presents factually the inception, development and present status of labor legislation; the growth, tactics and theories of the labor union; and the wider aspects of the labor movement as visualized by this investigator, professor of economics in the University of California. While generally sympathetic with the demands of labor he criticizes sharply some of the theories and tactics of the leaders of labor.

WHAT THE COAL COMMISSION FOUND. Edited by Edward Eyre Hunt, Assistant to the Secretary of Commerce, 411 pages. Price $5. Published by The Williams & Wilkins Company, Baltimore.

This book, the third in a series on human relations, is accurately described by its title. Many persons have contributed to the volume which contains a mass of descriptive and some statistical information and a number of useful illustrations. It is a volume authoritatively summarizing the findings of a Federal Commission which spent much time in an endeavor to produce all facts necessary to help in the solution of a chronic trouble in American economic life.

Labor Bank Policy

THERE are now more than thirty established labor banks in the United States and several more are projected.

The Brotherhood of Locomotive Engineers, which was the pioneer labor organization in this field, has made clear, however, that it does not intend to enter new territory but will seek to build up the present institutions and develop a nation-wide business of selling securities.

"The financial policy of the brotherhood is not to enter new fields and establish new banks but rather to build up and develop banks already established and to build a bond selling business all over the United States," said William B. Prenter, who is directing this phase of the brotherhood's activities. "It expects to accomplish these two purposes by following the same safe, conservative business principles which have always been followed by successful banking, investment and bond distributing houses."

Some of the Major Problems

BY JAMES E. CLARK

OFTEN there seems to be a difference between the cost of living statistically and the cost of living actually. The cost of living index number may show that prices have gone down a certain per cent, whereas, the tradesmen are demanding and getting more from the consumer.

The economist's data are gleaned from many sources and cover a wide range, while individual experience usually is confined to one locality. Moreover, any failure of individual experience to coincide with statistical findings may be due to the circumstance that the individual is looking at the experience of a day or a week, unaided by adequate personal accounts.

Like the weather forecast that looks forward and over a wide area, the index number, which tells of a past experience of a nation, should not be questioned because the experience at one pin point on the map is not the average experience.

The index number, however, does not tell the whole story of the variation in the cost of living. There is another influence at work which it has not yet become the fashion to periodically measure but which, nevertheless, is a powerful factor in determining the cost of living. That factor consists of the number of new items which are year by year added to our "necessaries."

The urge to accept and adopt additional items comes to us from all sides. There is, for illustration, a certain compulsion in the perfection of a labor saving, or pain saving, process which leaves us little choice as to its adoption. There is an obvious and also a subtle compulsion in the effect of advertising which, by gentle and skillful processes, makes us so familiar with the advertiser's offerings that eventually acceptance appears to have been a matter of personal decision; and, perhaps, more powerful than either of these is, what may be called, the momentum of the crowd, for, even were it wise to do so, few can resist the example and the expectation of those with whom he mingles.

But there need be no regret over the fact that we must have more things to live with this year than we had a decade ago, for the making of those new things which we need, or think we need today, furnishes employment for men and money, and the wages of both the men and the capital come round to us all in an unbroken circle. When we stop adopting new things the price of weed killers is likely to rise.

If the public could and did resist new things, business would come to a standstill, for wherever there may be found people who cannot, or will not, readily adopt the new things, there will be found a condition of extremely low progress, or no progress at all.

But it would be interesting, if not useful, to measure, if we can, the degree of rapidity with which luxuries are transferred to the list of things commonly accepted as likely candidates for the rating of "indispensable."

The Coal Problem at Home and Abroad

IMPORTANT in its effects far beyond the British Isles is the determination of the British government to ask parliament for approximately $50,000,000 to be given to the coal industry in the form of a "subvention" as they call it there, or subsidy as it would be called here, in order that a coal strike may be averted.

The ramifications of the influence of this action are almost inexhaustible. Stripped of what might be termed extenuating circumstances the proposal to pay approximately $50,000,000 to the coal industry, both to operators and wage earners, means that labor, having turned the last screw on the industry and finding that the purchase is broken and there is nothing more to be had from the industry itself has nevertheless forced the government to ask for a levy from public funds in order to give the miners what they consider to be satisfactory wages. What the consumer pays for coal will not therefore be only what he pays to the seller. Part of the cost will be included in taxes.

And while this makeshift settlement is for a limited period it is a matter of speculation whether labor, having achieved this victory, is likely to yield what it considers to be a justifiable advantage when the time comes for a new settlement.

Wherever in the world there is a chronic labor problem, this driving of the British government into the corner may not be without an influence making for uneconomic demands and for settlements which are based on expediency rather than economic principles.

Here in the United States we have our own perennial coal problem, with consumers in some sections at present paying $16 per ton for anthracite coal low in quality and often short in weight, and unable to answer the question, "Where does the money go? Is the precedent established by England likely to give hope in this country that some of our own coal bill may be imposed in the form of taxes?

Barclays Bank Limited of London in its *Review* summarizes the causes which have produced the coal crisis in that country:

"Among the economic causes that have contributed to the present position of the industry are the diminished consumption of coal by the iron and steel industry, the diminished world consumption of coal compared with that of 1913, the increased consumption of oil and hydroelectric energy for industrial purposes, the development of foreign coalfields, the contraction in the world volume of trade, and the lower costs of production of, and, therefore, the lower prices asked for, some of the coals with which the British product competes in oversea markets.

"The financial position has become worse since April, and according to a statement of the Secretary of the Mining Association of Great Britain, every important coalfield in the country was being worked at a loss in June. In consequence of these results and of the falling off in trade, 500 pits employing 110,483 miners have been closed and not reopened, the average working week has fallen from 5.65 days to 5.22 days, the output has been reduced from 5,900,000 tons in a full working week to less than 4,500,000 tons, while the number of unemployed coal miners whose books were lodged at employment exchanges at the end of June, 1925, was 314,639 as compared with 59,728 at the end of June, 1924.

"In regard to the other causes adversely affecting the industry, statistics show that the world production of coal in 1924 was 1.6 per cent less than in 1913, but of the world requirements, the United Kingdom is now supplying less than 5 per cent compared with 7 per cent, the proportion of the merchant marine now consuming oil is about 32 per cent of the total gross tonnage compared with only about 3 per cent before the war, France is today producing at the rate of about 50 million tons per annum compared with just over 40 million tons in 1913, Holland over 5 million tons compared with about 1½ million tons, and though Germany is producing coal at the rate of between 10 and 11 million tons per month, compared with 15.7 million tons, she is producing lignite at nearly double the pre-war rate, while on an average the labor cost of production abroad is about 40 per cent less than in this country.

"Whatever views may be held as to the means by which a temporary settlement of the dispute was reached, the disastrous consequences which would have ensued from a stoppage need no emphasis. The recovery in the trading position of this country is still so hesitant that it cannot afford to stand the shock of any setbacks, however slight, but a disturbance on the scale of a national stoppage in the coal mines would have inflicted a blow, the effects of which might have been felt for many months, if not for years. It is to be hoped that as a result of the further inquiry some permanent solution will be found mutually acceptable to both sides, without the repetition of any further crisis, because it should not be overlooked that even when a stoppage is actually averted, the threat of a suspension involves considerable dislocation and loss of trade."

It will be noted from the foregoing that factors which are producing trouble at present are also factors which are making for the eventual simplification of the fuel problem — increased consumption of oil and hydroelectric energy for industrial purposes. Slowly but surely these factors are affording more and more consumers of coal freedom from the dangers and exasperations attendant upon that form of fuel and energy, and the big electric development now getting under way all over the world should find a market not only willing but impatient to buy this form of heat and energy, because it has suffered too much and too long from the coal situation.

New Light on Reparations

A NEW light on the obstacles in the way of German reparations was shed by Sir Josiah Stamp, president of the London Midland and Scottish Railway, in a notable address on the Problem of Transfers delivered before the International Chamber of Commerce in Brussels. Greatly concerned over the contests which have already been caused by the advent of German goods in foreign countries even before the real problem of reparations payments has been begun, he said, "It fills me with the gravest misgivings if this kind of thing is to go on for the next thirty years!"

One of the dangers and irritations he illustrated by reading the following letter from the president of the Chamber of Com-

merce at Lille, France, to the Prime Minister:

"Already, on several occasions, and notably on the 19th October, 1921, 21st November, 1923, and 26th January, 1924, the Chamber of Commerce of Lille has cautioned the Government against the danger menacing the national industry, and notably the industry of the regions that were victims of the invasion, on account of the deliveries of manufactured goods made by Germany under the heading of *Deliveries in Kind.*

"As much as it is desirable that Germany should furnish, under that heading, raw materials that France does not possess in sufficient quantity, and of finished products that French industry cannot procure, so also it is perilous for French Labour that Germany be called upon to deliver products that France is able to manufacture.

"Already in 1924, the Northern textile industry had sent forth a cry of alarm; today it is the whole metallurgic industry that is keenly and legitimately affected by important orders made to Germany of naval and railway material.

"The Chamber of Commerce of Lille estimates that this kind of deliveries is of a nature to favor the German workmanship, and to allow the German industry to work and prosper to the detriment of French industry. It is indispensable to avoid the slowing up of national production; we must above all maintain and save our industry.

"Without a doubt, if the delivery of finished products develops, the French State will be indemnitised in part, but it will bear, in consequence, an undervalue of taxes which may become considerable, without reckoning that the slowing up of industrial activity will cause unemployment, so costly to the public treasury, and so abundant in deplorable repercussions of all kind.

"Therefore the Chamber of Commerce of Lille demands that the finished products to be received from Germany be designed limitatively and with judicious prudence, and that in any case orders be not made to Germany until after a preliminary understanding with the interested economic groups."

"This," the speaker continued, "is an example of a feeling that is perfectly natural and, up to a point, prudential and praiseworthy. One cannot help thinking, however, that if this attitude becomes representative, and if the receiving countries really take up a restricting attitude, we shall make progressively more difficult the problem of successful transfer. If we agree that this class of goods must be carefully excluded from our own countries by tariffs or by arrangement, then, unless we are to thwart the Transfer Committee in their labors, we incur at once the severe responsibility of plotting out the active, and possibly otherwise premature, development of neutral and more remote parts of the world. *We cannot have it both ways!* We cannot say that we will not have introduced into our own country the only goods by which Germany can effectively pay and, at the same time, sit with our hands folded and take no part in finding the least harmful outlets in other lands. We cannot leave the German industrialists to find out these outlets for themselves and then talk resentfully of German 'economic penetration' into countries in which we have financial interests; nor grumble at the languishing of our export industries in iron, steel, shipbuilding, electricity and the like. Let us face fairly and squarely up to these antithetical difficulties and make our choice! If these half developed areas are to be irrigated by German reparations, let us all take a hand in planning that irrigation and entering into our share of its ultimate advantages on the lines indicated in the report.

"Now let me take a still more recent example which I also summarize from *Le Temps* of the 24th May:

" 'The Minister of Public Works has received a deputation of industrialists who draw attention to the troublesome reactions on industry which orders for rolling stock given to Germany will have. An order of 4000 railway wagons given to Germany is one of the finest examples of how one country can be enriched in its actual possessions at the expense of the labor of another for capital purposes. This gives rise to great unrest among the French industrialists who naturally do not regard it as proper deliveries in kind.' "

A consideration of the foregoing conditions leads to a better understanding of what Bismarck had in mind when he declared, "The next time we will pay the indemnity ourselves," for indemnity seems to have some of the characteristics of a two-edged sword.

Now, as it has been estimated that 60 per cent of reparations will eventually come to America, though by indirect channels, what Sir Josiah said with reference to the attitude of the world towards the problem is of unusual significance.

"Be the facts what they may," he asserted, "it is, after all, our personal attitude towards them that determines human destiny so far as that destiny is within our control." Reminding his audience that economic truths and principles have a nasty knack of not being as pleasant or as rosy as our desires or hopes, he suggested four essentials to a correct attitude of mind toward the problem: (1) complete personal candor or honesty; (2) greater discrimination in our choice of guides; (3) complete public candor; (4) the daily recogniton that all economic life for nations involves a choice between benefits.

Either we want reparations or we don't, he boldly declared, and, if reparations are wanted, the day of sectional recrimination should be over. Every restrictive, safeguarding or protective measure is anti-reparation in its tendency and such measures will either defeat a reparation policy or make it progressively more difficult.

The October Journal

IN the AMERICAN BANKERS ASSOCIATION JOURNAL for October there will be reproduced in colors a distinctive series of oil paintings symbolizing a number of high points in the banking history of the last fifty years in the United States. The series is by the well-known artist, Walter de Maris, with whose work readers of current literature have long been familiar, and in the execution of the series Mr. de Maris has splendidly brought out some of the more dramatic and history-making events which have occurred in the financial world since the American Bankers Association was formed. As the JOURNAL'S own observance of the fiftieth anniversary of the Association, the pictures are peculiarly appropriate. As works of art the series is admirable. As glimpses of great events redounding to the credit of American bankers, the series will be of historical value.

From a pictorial point of consideration the presentation of events of great significance in the financial and economic world is a problem not easy of satisfactory solution. But in these pictures Mr. de Maris has been highly successful in producing paintings which visualize at a glance events so mammoth in scope and so wide-reaching in their influence on men and business as to lift themselves above and beyond the conventional way of portraying the dramatic. Mr. de Maris has succeeded not only in visualizing certain high points in the financial history of the last half century but has done so with a dramatic touch.

This series of pictures—in faithful reproductions of the original brilliant colors—therefore will give an unusual degree of interest to the October number, which, as customary, is published as soon after the close of the annual convention of the American Bankers Association as the mechanical requirements permit.

There will also be a number of articles, appropriate to the pictures which can not fail to challenge the interest of every banker and every student of banking. Though the banking and business problems of today are fascinating, those of other times likewise put the bankers of other days on their mettle and called for a high order of business ability and business courage; so it is well to recall what those problems were and how they were met for it is due to the fact that the older bankers successfully solved their problems that we today enjoy so high a degree of prosperity.

In that issue of the JOURNAL there will be completely covered the proceedings of the convention and the various divisions and sections, including, of course, those features of the convention which have special reference to the anniversary that the Association observes in the Atlantic City meeting.

The post-convention issue, containing as it will the proceedings of what to many—even outside of the banking fraternity—is the most important business convention in the United States, should be one of outstanding interest to the whole banking fraternity.

The post-convention number always contains what is in effect the banking thought of a whole year. This year it will contain, in addition to the banking thought of a year, such comparative views of banking as the veterans of the fraternity will present to the convention, and also those suggestions of what lies ahead of banking as this memorable occasion may prompt the prophetic to present.

Opinions of General Counsel

THOMAS B. PATON

Indorsement of Bankers Acceptance "Without Recourse"

INDORSEMENT "without recourse" relieves indorser from responsibility in case of non-payment but does not destroy negotiability and indorsee has recourse, if unpaid, upon parties prior to indorser "without recourse."

From New York: On occasions, we are offered for discount acceptances, the drawers of which are located in foreign countries, and which are drawn payable to the order of American banks, and which are drawn upon American banks other than those to which they are made payable. For example, we have a draft drawn by a bank in South America on the X Trust Company, payable to the order of the Y Trust Company of New York. This instrument is duly accepted by the X Trust Company, and is indorsed without recourse by the Y Trust Company. In our opinion, this instrument is not completed when bearing this qualified indorsement. It is our general practice to refuse to buy such bills. Our policy in refusing to discount such bills is now being questioned in the market, and some of the other discount houses are apparently willing to negotiate bills of exchange even though the first indorser indorses without recourse. Would like your opinion whether the indorser, in not having fully carried out the instructions contained in the draft, releases the drawer from further responsibility?

An indorsement without recourse simply qualifies the indorsement to the extent that, in the event of non-payment the holder cannot look to the indorser. The indorser without recourse, however, is not relieved from his warranty of genuineness implied from the indorsement. Furthermore, such a qualified indorsement without recourse does not destroy negotiability, and in the event of non-payment the indorsee still has recourse against prior parties other than the indorser without recourse. In the case stated, the payee evidently simply desires to transfer this acceptance without being responsible in the event of non-payment, but if you are willing to discount this acceptance and look solely to the responsibility of the drawer and the acceptor, there is no reason why you should not do so.

Certification of Trade Acceptance

A BANK has the right to certify and charge to the account of a customer, at maturity, a trade acceptance on which the first indorsement is lacking, prior to returning it for such first indorsement.

From Pennsylvania: Some banks make a practice of certifying notes and trade acceptances on the date of maturity where the first indorsement is missing in order to protect the indorser so far as the amount is concerned. We will be pleased to have you advise if a bank is justified in certifying either a trade acceptance or a note, charging the account of the customer and returning it for indorsement. The question arises in our mind whether a bank has the right to certify in such case and charge it to the customer's account because if the customer asked for a return of the acceptance before it came back to the bank properly indorsed, the latter would not be in position to comply.

I think a bank has the right to certify and charge to the account of a customer, at maturity, a trade acceptance on which the first indorsement is lacking, prior to returning it for such first indorsement. It is quite a common practice of banks to certify checks where the payee's indorsement is missing and return such checks for proper indorsement. The object is to save the fund for the holder. I do not think the fact that the bank would be unable to return the acceptance immediately on demand of the customer, although charged to his account, would affect its right to certify. A check certified for the holder where no indorsements are missing, cannot be returned to the drawer until it is presented for payment; but it is quite well established that the bank has a right to certify without first obtaining the consent of the customer. I think an unindorsed trade acceptance at maturity would fall in the same category. The customer has ordered his bank to pay and cannot complain if the amount is charged to his account although the bank has paid not in cash but by its own obligation which will be performed when the instrument is returned properly indorsed.

Check With Marginal Figures Torn Off

WHERE a check has printed across its face the words "Not good for more than the largest amount shown in figures on left margin. Void if margin is detached" such words are a condition of payment imposed by the drawer and if the marginal figures are entirely torn off, the bank would have no authority to pay.

From Massachusetts: Will you kindly give me your opinion as to the liability a bank would incur in paying a check like the enclosed in case the marginal figures have been entirely torn off? (Sample of check enclosed is in ordinary form with marginal figures in different amounts and the words printed across the face—"Not good for more than the largest amount shown in figures on left margin. Void if margin is detached."). Would the words printed across the face prevent the bank from charging the check to the account of the drawer, should the check be presented either lacking the figures or with an improper amount shown?

The words printed across the face of the check are a condition imposed by the drawer and where the marginal figures have been entirely torn off this would avoid the check as an order upon or authority of the bank to pay. If the bank should pay the check it would do so at its peril and it could not charge the amount to the account of the drawer unless he consented thereto.

Computation of Time of Maturity of Note

A NOTE dated August 15th payable one or two months from date, matures on the corresponding day of the month of maturity and such maturity is not calculated on the basis of thirty days to the month.

From New York: Will you kindly give me the law on the following: A series of notes are dated August 15th payable one, two, three, four months, etc., from date. When are these notes legally due? That is to say, are they due on the 15th of the respective months or thirty, sixty, ninety days, etc., from August 15th. I incline to the former view but do not find the law to cover.

The legal rate is the corresponding day of the month of maturity unless in case of a one month note dated January 31st, in which case the due date would be February 28th (or 29th).

The following states the proposition more fully, with citation of cases:

In reckoning the time of maturity of paper governed by the law merchant, a "month" is taken as meaning a calendar month, so that a bill or note dated on a certain day, and payable one or more months after date, becomes due on the same day as its date of the month in which it is payable, (Doyle v. Birmingham First Nat. Bank, 131 Ala. 297, 30 So. 880, [holding that a note which is executed on "November 11, 1899", and is made payable "six months fixed after date", matures on the 11th day of May following, and such note is subject to protest for nonpayment on that date]; Wagner v. Kinner, 2 Rob. [La.] 120; Beck v. Thompson, 4 Har. & J. [Md.] 531; Hartford Bank v. Barry, 17 Mass. 94; Barlow v. Planters' Bank, 8 Miss. 129; Roehner v. Knickerbocker L. Ins. Co., 63 N. Y. 160; Leffingwell v. White, 1 Johns. Cas. [N. Y.] 99; McMurchey v. Robinson, 11 Ohio 496; Thomas v. Shoemaker, 6 Watts & S. [Pa.] 179; State Bank v. Officer, 3 Baxt. [Tenn.] 173; Young v. Van Benthuysen, 30 Tex. 762; Ripley v. Greenleaf, 2 Vt. 129; Cockell v. Gray, 3 B. & B. 186) unless such month, being shorter, lacks such day in which case the paper will become due on the last day of the month. (Wood v. Mullen, 3 Rob. [La.] 395, 8 C. J. 402).

Set Off of Unmatured Debt of Insolvent Depositor

BY the weight of authority and the rule laid down in the Federal courts and under the Bankruptcy Act a bank can set off an unmatured note against the deposit of an insolvent maker; although in some states the bank is not entitled to apply such deposit.

From Pennsylvania: Among our customers we number a business corporation to which we have been making loans. It had been short of working capital and was discussing the subject with us from time to time from different standpoints. Finally, the secretary and treasurer surprised us by making the statement that there was nothing ahead of them but bankruptcy. He had arranged for an issue of preferred stock but in the course of the conversation stated that he could not go out and ask business men of the community to subscribe for this stock and pay in their money under existing conditions. He asked the writer if he would meet him at the office of his (the customer's) attorney. He there discussed the formalities necessary to bankruptcy, the list of creditors to whom he must send notice and the time which would be required to prepare and send out the notices. We felt that the corporation was to all intents and purposes in bankruptcy. There was a balance standing to its credit on our books of some thousands of dollars. We applied that amount on ac-

count of the loans which we had made to it, none of which were due. About this time a large creditor of the corporation, one who sells it certain materials, appeared on the scene and by some means changed the customer about so that he alleged they were not a subject for bankruptcy, but after several meetings and a calling together of several other creditors, a Receiver was appointed by United States District Court. Our attorney is quite of the opinion that our position with reference to the disposition of the balance to the credit of the customer is safe and that we have a right to apply it on account of the notes notwithstanding the fact that they were not due. He tells us that while Pennsylvania State Court decisions are not of that character, the decisions of the Federal Courts are so. Your opinion is desired.

The rule is well settled in Pennsylvania that where a depositor becomes insolvent, the bank is not entitled to apply his deposit on an unmatured debt of the depositor due to the bank. (Com. v. Trademen's Trust Co. [Pa. 1915] 95 Atl. 575; Blum Bros. v. Girard Nat. Bank, [Pa. 1915] 93 Atl. 912; Oyster v. Short, 177 Pa. St. 589, 35 Atl. 686; Hotchkiss v. Roehm, 181 Pa. St. 65, 37 Atl. 119; Chipman v. Ninth Nat. Bank, 120 Pa. St. 86, 13 Atl. 707. See also U. S. Brick Co. v. Reading Shale Brick Co. 228 Pa. St. 81, 77 Atl. 395). However, by the weight of authority, and the rule laid down in Federal courts, where a depositor becomes insolvent the bank is entitled to apply his deposit on an unmatured debt of such depositor due to the bank. (Rolling Mill Co. v. Ore & Steel Co. 152 U. S. 596, 14 Sup. Ct. Rep. 710; Schuler v. Israel, 120 U. S. 506, 7 Sup. Ct. Rep. 648; Clearwater County v. Pfeffer, 236 Fed. 183. See also First Nat. Bank v. Seldoombridge, 271 Fed. 561). Likewise, under the Bankruptcy Act a bank can set off an unmatured note against the deposit of the maker thereof. (In re Meyer, 107 Fed. 86; N. Y. County Nat. Bank v. Massey, 192 U. S. 138; Germania Sav. Bank & Trust Co. v. Loeb, 188 Fed. 285; Putnam v. Trust Co., 223 Mass. 199, 111 N. E. 969; Sturm v. Chatham & Phenix Nat. Bank, 199 N. Y. Suppl. 895; U. S. Comp. Stat. §§9585, 9656). Your application of the deposit of the corporation to its unmatured notes was, therefore, justified.

Certificate of Deposit

A BANK issues a negotiable certificate of deposit. The payee indorses same before maturity to another bank for value, which demands payment, the certificate being then due and payable. In the meantime the payee dies. The issuing bank asks for a certified copy of letters testamentary and permission of the State Tax Department before making payment. The bank holding the certificate claims right to immediate payment. Opinion: The certificate being negotiable and indorsed before maturity, neither the estate of the payee nor the State Tax Department have any interest therein and the bank is entitled to immediate payment.

From New York: This bank holds a certificate of deposit in negotiable form which was indorsed to it by the payee at about the time of its date. The payee died about a month ago and upon requesting payment of the certificate, the payor bank takes the position that before it can properly pay, it must have a certified copy of letters testamentary and the permission of the State Tax Department. We take the position that the paper is negotiable and its payment is no concern of any representative of the payee or of the Tax Department. Are we right?

The certificate being negotiable, the bank as indorsee of the payee before maturity for value takes all the enforceable rights of a holder in due course. Neither the estate of the payee nor the State Tax Department have any interest therein and the bank is entitled to immediate payment.

Judgment Notes in Illinois Negotiable

IN most states where judgment notes are used which contain a clause authorizing confession of judgment at any time after date as distinguished from "after maturity" such notes are held not negotiable, but under an exceptional rule in Illinois, such notes are negotiable.

From Wisconsin: A five year note secured by trust deed on real estate and with interest coupons attached is executed in Illinois to the order of the maker and indorsed in blank. The purchaser of the note and trust deed desires to pledge it to our bank as collateral for a loan, but the note has a clause authorizing confession of judgment at any time after date and we believe this clause would destroy negotiability and make the note subject to defenses. Your opinion will be valued.

According to the authorities in a number of states a provision authorizing a confession of judgment in favor of the holder at any time after date renders the instrument non-negotiable. The N. I. Act provides that negotiability of an instrument is not affected by a provision which authorizes a confession of judgment "if the instrument be not paid at maturity;" but where a confession of judgment is authorized at any time after date and before maturity, this destroys negotiability. Wisconsin Yearly Meeting v. Babler, 115 Wis. 289; First National Bank v. Russell, 124 Tenn. 618.

In Illinois, however, the words "if the instrument be not paid at maturity" are omitted from the Uniform Negotiable Instruments Act and the Illinois statute provides that "the negotiable character of an instrument otherwise negotiable is not affected by a provision which * * * authorizes a confession of judgment." It has also been held in Illinois that such a clause authorizing confession of judgment at any time after execution of the note does not destroy negotiability. Gehlbach v. Carlinville National Bank, 83 Ill. App. 129.

While, therefore, notes which contain a provision authorizing a confession of judgment before maturity are generally held not negotiable, this is not true in Illinois, where "a confession of judgment note" is negotiable although it may authorize entry of judgment at any time after date.

American Bankers Association Educational Foundation

THE American Bankers Association made its first great step forward in the field of education twenty-five years ago through its moral support and an initial contribution of $10,000, thereby making it possible for the ambitious bank clerks of the United States to found the American Institute of Bank Clerks. Because of the rapid rise to official positions of many of its members, this organization soon changed its name to the American Institute of Banking and has long since been a most important section of the American Bankers Association. The Institute has grown until it now has 55,224 members, over 30,500 of whom are pursuing its educational courses. The thousands of Institute graduates filling responsible bank positions attest the wisdom of its founders.

Seventeen representative bankers met in New York in May, 1875, to discuss plans for the formation of an association of American banks. Shortly afterward the first national convention of American bankers was held at Saratoga Springs and in the following year, by the adoption of a constitution, a permanent organization was effected. For fifty years the Association has held consistently to its original declaration "to promote the general welfare and usefulness of" banks and financial institutions. The Association now signalizes its Fiftieth Anniversary by creating the American Bankers Association Educational Foundation.

In establishing the American Institute of Bank Clerks, the Association recognized the necessity of creating among its own people a sound and intelligent opinion on banking and allied economic subjects. In creating its Public Education Commission in more recent years the Association further recognized its responsibility in the formation of an intelligent public opinion on banking and economics. It believes that one of the most effective ways it can serve the people is by developing sound economic thinking among them.

From the establishment of the American Institute of Bank Clerks until today, when it is creating this great Educational Foundation, the Association has endeavored to increase public information about banks and banking and inculcate among the people economic principles that have stood the test of practical experience. It has also addressed itself to developing a wider appreciation of and respect for our constitutional form of government under which business has given employment to our people and the country has enjoyed incomparable growth and prosperity.

The creation of the Educational Foundation registers another forward step. The income of the Foundation will be used primarily to establish undergraduate scholarships in economics in American colleges and universities. The Fiftieth Anniversary Committee, which has this work in charge, will make a report at the coming Atlantic City Convention on the progress so far achieved and also give a full statement of the detailed plan of campaign for carrying it forward to completion.

Kansas Banking Board

Governor Ben Paulen of the State of Kansas has appointed as members of the newly created State Banking Board, M. H. Malott, president the Citizens Bank, Abilene, Kansas; Thad C. Carver, president of the Peoples Bank of Pratt, Kansas; W. C. Kemp, cashier Citizens State Bank, Wichita, Kansas; and A. F. Goebel, cashier Commercial State Bank of Kansas City, Kansas. Bank Commissioner Roy L. Bone is ex-officio chairman of the board.

Appraising Foreign "Dollar Bonds"

By JAMES RATTRAY
Assistant Vice President, Guaranty Company of New York

As Yields on Such Bonds are In General Higher Than on Domestic Issues They Offer Opportunity for Increasing the Average Return on Investments. The Basis of Government Credit. Extent of Protection Offered by the High Rate of Interest.

FOREIGN dollar bonds constitute an important class in the broadened investment market that has been developed in the United States during the last decade. As estimated by the United States Department of Commerce, residents of this country, as of January 1, 1925, owned foreign government securities aggregating about $3,840,000,000; our total foreign holdings, excluding debts owed to our government, amounted to about $9,000,000,000, having increased by about $1,000,000,000 during 1924.

In 1914 there were no important offerings of foreign securities in the United States, and at the end of that year the par value of such securities listed on the New York Stock Exchange amounted only to about $685,000,000. In 1924 foreign government and corporation issues brought out in this country represented about 20 per cent of all capital offerings, and at the end of the year, such issues listed on the New York Stock Exchange aggregated about $4,500,000,000. During the first seven months of 1925, about 17 per cent of all public offerings of securities has been foreign issues. Our present importance in international finance as indicated by these statistics is, of course, due to the fact that the United States is now the leading creditor nation of the world, with a plethora of funds available for investment.

To the investor, our position as a creditor nation is not necessarily advantageous, unless he is willing to invest in foreign securities, for in such circumstances, under normal conditions, capital seeking investment is likely to be in excess of the supply of domestic securities, and in consequence lower interest rates are almost inevitable. However, yields on foreign dollar bonds, in general, are still substantially higher than on domestic issues, and such foreign securities, therefore, provide an opportunity for increasing the average return on one's investments.

What Should Form Basis of Government Credit?

YIELD is, of course, only one consideration in purchasing securities, and as it is customary to associate high yields with a corresponding degree of risk, some investors still look askance at foreign dollar bonds. This, in itself, necessitates the offering of such bonds on a more attractive yield basis than domestic issues, and to the extent that high interest rates are offered to overcome such resistance, they are not an adequate measure of the risk involved. In fact, it has been possible in recent years for countries with depreciated currencies which have since appreciated, to issue bonds in this country bearing an 8 per cent interest rate, at practically no cost to the issuing government, or at a cost substantially lower than if internal loans had been floated bearing a much lower rate. Evidence of this is submitted in Table I showing the approximate cost to the Kingdom of Norway and Denmark of their 8 per cent bonds of 1920, which have been called for redemption in October of this year.

As investors have adequate means of obtaining complete and reliable information concerning domestic securities, a market appraisal of their intrinsic value is probably not very wide of the mark. But, until investors, in general, have a clear understanding of what should form the basis of sound governmental credit, it is likely that, as a class, foreign government bonds will continue to sell in this market at lower prices than the credit standing of the borrowers warrants. As bond yields are normally influenced by commercial money rates, and as easier money conditions have been prevailing in New York than in London, it would be reasonable to expect lower yields on foreign government bonds here than in the English market. That a reverse condition exists is shown in Table II, which gives a comparison of yields on bonds of countries whose securities are listed on the London and New York stock exchanges, indicating that foreign issues are more highly regarded by British investors, who have, of course, had much more experience with them.

The extent of the protection against loss that is afforded by a high interest rate is not generally realized by investors. The economic theory of interest is that the gross interest rate on a loan includes the two elements of pure interest (payment for the loan itself), and insurance against risk of loss, or of trouble in collection. Although the facts do not appear to justify such an assumption, let us assume, for the sake of argument, that the amount of interest payable on a foreign bond in excess of what one would receive on a sound domestic bond at the same price, represents insurance against risk; in such circumstances the conservative procedure would be to hold such excess in a reserve fund. The amount at the end of various periods that would be accumulated in such a fund (compounded semi-annually at the

Table II

Comparative Yields

The average yields in London and New York on bonds of various countries about August 17, 1925, was approximately as follows:

Government Issues	London Yield, Per Cent	New York Yield, Per Cent
Great Britain	4.70	4.85
Sweden	4.75	5.35
Dutch East Indies	5.15	5.45
Queensland	5.30	5.55
Norway	5.55	5.85
Argentina	5.65	6.30
Belgium	5.70	7.15
Brazil (Coffee Loan)	5.85	6.05
Chile	6.20	6.90
Finland	6.80	7.55
Japan	6.95	7.05

Table I

Cost of Foreign Dollar Loans

In 1920 the Kingdoms of Norway and Denmark floated loans in the United States on an 8 percent basis, both of which have been called for redemption this year. As a result of the recovery in exchange rates on these countries since 1920, this financing has been more profitable to the respective governments than domestic issues on a much lower interest rate would have been. The approximate cost to the respective governments of the funds obtained through these issues is shown below:

	Kingdom of Norway 8s, 1940	Kingdom of Denmark 8s, 1945
Date of original offering	Sept., 1920	Oct., 1920
Amount offered	$20,000,000	$25,000,000
Offering price	100 and int.	100 and int.
Average exchange rate during month of offering	13.99c. pr. Kr.	13.87c pr. Kr.
Approx. proceeds in currency of issuuing country, subject to bankers' commissions and other expenses	Kr. 143,000,000	Kr. 180,000,000
Entire issue called for redemption	Oct. 1, 1925	Oct. 15, 1925
Cost of redemption at 110	(a) $22,000,000	$27,500,000
Estimated exchange rates at redemption dates (approximately current rates)	20c per Kr.	24½c per Kr.
Cost of redemption in currency of issuing country at estimated exchange rates	Kr. 110,000,000	Kr. 112,200,000
Aggregate of semi-annual interest payments for five years, computed at average rates of exchange for the months preceding dates of payment	Kr. 50,200,000	Kr. 53,200,000
Approx. aggregate payments of principal and interest	Kr. 160,200,000	Kr. 165,400,000
Payment in excess of proceeds of issue	Kr. 17,200,000	Less than proceeds by Kr. 14,600,000
Equivalent to annual interest for 5 years at rate of about	2.41 per cent	

(a) This computation does not give consideration to Kingdom of Norway bonds purchased in the open market for the sinking fund, aggregating $4,059,000 par value to August, 1925.

Table III

Reserve Funds

A reserve fund, equivalent to the designated percentages of par value, per $1,000 bond, if invested at 4 per cent per annum, compounded semi-annually, would produce the amounts given below for the periods indicated:

Percentages of $1,000 Par Value of Bonds

Years	1½%	2%	2½%	3%
5....	$82.12	$109.50	$136.87	$164.25
10....	182.23	242.97	303.72	364.46
15....	304.26	405.68	507.10	608.52
20....	453.01	604.02	755.02	906.03
25....	634.30	845.79	1,057.29	1,268.59
30....	855.39	1,140.52	1,425.64	1,710.77

rate of 4 per cent per annum) is shown in Table III. It will readily be seen that in the case of many foreign dollar bonds listed on the New York Stock Exchange, such a fund would amount to more than the original investment, before the maturity of the bonds. In a very short time it would give adequate protection against possible market fluctuations. Such a fund could, of course be accumulated, while still retaining as high an income as from domestic securities.

Higher Prices for Dollar Bonds

ALTHOUGH many foreign dollar bonds are still selling in this market on relatively high yield bases, there has been a decided change in this respect during the last year. Economic and financial conditions are becoming stabilized in many European countries, and many foreign currencies have now returned to dollar parity. This improvement has been reflected in higher prices for the dollar bonds of such countries, and recently it has been possible to float loans in this market bearing much lower interest rates. A further stimulus to the market for such issues has been given by purchases from abroad to obtain the benefit of the higher yields obtainable here. Such purchases were not profitable when dollars were at a substantial premium abroad, but under existing conditions foreign dollar bonds issued here are gradually being acquired by foreign investors.

Another factor that may reduce yields on foreign issues is competition for such loans from Britain, Holland, and other countries in which the gold standard has been restored, and where such securities are better known than here, and their value thus more accurately appraised. Such competition may result in a lesser volume of new foreign issues in the United States, but that is not at all certain as this country is now the greatest reservoir of available capital. However, it is improbable that European governments will be other than temporary borrowers in this market, but in course of time, there will likely be an increasing volume of foreign railroad, public utility and industrial issues. Great Britain's experience with such issues has been satisfactory, and its investments in foreign countries have been not only profitable to British investors, but of decided benefit to British trade and commerce.

Our new position as a creditor nation makes it essential for us to expand rather than contract our foreign investments. With an export balance of trade we are in the position usually occupied by a debtor nation. Considering that we are now the leading creditor nation this is an anomaly, and the only known way in which we can increase our exports is to make loans abroad. Although the export business of the country is small in proportion to our domestic business, it is vitally important to many people, and its successful prosecution or otherwise may mean the difference between prosperity and depression. Therefore, as foreign trade is an essential of domestic prosperity, we cannot hope to continue prosperous without continuing to take an active part in financing foreign enterprises. In this connection, it should not be forgotten that the development of the United States in the early Nineteenth Century was aided materially by the investment here of British and Dutch capital. Similar opportunities to profit from foreign investments are now available to us if we have the vision and courage to take advantage of them.

How Much Risk?

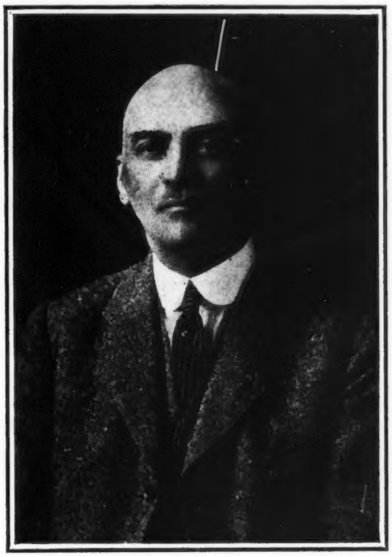
GRANTING the necessity for foreign investments, one naturally inquires how much risk the investor assumes in purchasing foreign securities. Such securities cannot be considered as a class any more than can domestic securities, and the same care should be exercised in selecting them as in the selection of domestic issues. At present, the majority of foreign issues in this market consist of Government and municipal bonds. These have been issued principally for funding floating debt, stabilizing exchange, the development of natural resources, providing adequate means of transportation, and similar purposes. All of these are legitimate reasons for borrowing, if the debt service on such loans is not beyond the ability of the debtor to meet from existing

sources of revenue, or sources to be provided from expenditure of the proceeds of the loan. If the proceeds of any given loan are to be used directly or indirectly for production purposes, or to aid in any legitimate way in the restoration of economic and financial stability, it merits further consideration by the investor.

In the case of foreign government loans particularly, it is usually possible to get official information of a very comprehensive nature, much of which is now presented in convenient form in the standard investment manuals. Such loans to be valid must be approved by appropriate legislation, which is a matter of public record. The character of the people in the country to be financed, and the history of how their obligations have been met in the past should be given consideration, for the moral risk indicated thereby is probably more important than the value of natural resources or the current financial position of the government. As government revenues are derived from customs duties and other forms of taxation, it is necessary to study the source of these revenues. This requires an analysis of data relative to the nature and extent of the industries of the country, its natural resources and possibilities of developing them, and the extent of its foreign trade. The condition at any given time is, of course, not as important as the evidence of sustained progress.

The amount necessary to meet interest and sinking fund charges is generally termed the debt service of the country. If revenues over a period of years have shown a satisfactory excess over debt service, bonds issued by a stable and conservative government should command the confidence of investors. In recent years unbalanced budgets have been the rule rather than the exception, but that is not necessarily a reflection on the credit standing of a country that was a participant in the world war. The important factor to be considered by the investor is whether or not a definite program for balancing the budget is now in effect. A sound banking system is essential, particularly in industrial and commercial countries, and the currency of the country either should be stabilized, or there should be a definite program for bringing this about. Emphasis is frequently laid on statistics of per capita wealth and per capita debt, but they are only significant when considered in conjunction with other statistics.

Some government issues are secured by direct pledge of certain revenues, with proper provision for their loan. In other cases the high credit standing of the issuing governments enables them to float loans without specific pledge of revenues. Among the foreign dollar bonds listed on the New York Stock Exchange there are several corporation issues which bear a direct guarantee by endorsement of the government of the country in which the bonds are issued. In other cases there is a contractual agreement between the issuing corporation and the government, whereby the latter agrees to meet any deficiency, if earnings are insufficient to cover bond interest and amortization charges, which, in effect, constitutes an indirect guarantee. A government guarantee is, of course, the equivalent of an unsecured obligation of the government, and in appraising such issues it should be so regarded, due



Fred S. Case, Vice President, First National Bank, Sault Ste. Marie, Michigan, President, Michigan Bankers Association

consideration being given to the investment merit of the issue apart from the guarantee.

Diversification

IN addition to the higher yield that is generally obtainable on foreign dollar bonds, the inclusion of such issues in one's holding permits of greater diversification, which is now recognized as one of the fundamentals of sound investment. Geographical diversification, although important, is not usually given as much consideration as other methods of distributing risk, but it is used extensively by the British investment trusts. Such trusts have been operated profitably for many years, and their investments usually include a diversified list of foreign issues. It is, of course, impossible to lay down any hard and fast rule as to the percentage of foreign bonds that should be held by an investor, but if such issues are carefully selected and properly diversified, a moderate amount might safely be included in the holdings of many investors.

In recent years there have been heavy purchases of foreign dollar bonds by banks and other investors throughout the country, and in some states certain foreign issues have been legalized as investments for savings banks. It is improbable that this field of investment will be made available to savings banks and trustees to any great extent, for the restrictions on their investments must necessarily be very rigid. But in cases where the investor, individual or institutional is not required to confine himself to legal issues, and where he can obtain adequate information, or investment advice in which he has confidence, a portion of his funds could advantageously be invested in foreign dollar bonds. By so doing, he would aid in the financial and economic development of the world, and thus cooperate in a constructive effort which should increase American prosperity, and eventually redound to his own benefit.

Demand for Rayon

THE demand for rayon, the artificial silk fabric, is perhaps the outstanding feature of the textile market.

The demand for rayon at present exceeds the plant capacity and the leading producers are reported to have their entire capacity booked up for the rest of the year. Estimates of domestic consumption this year are placed at fifty million pounds by the First National Bank of Boston, of which only one-tenth will be imported. The use of rayon is said to be increasing constantly.

The price is only 11 per cent above the pre-war figure, as compared with 133 per cent for wool, 100 per cent for cotton and 68 per cent for raw silk.

State Debts

THE bonded indebtedness of our forty-eight states in the Union aggregates $1,558,742,433. Since 1920, more than half of the outstanding bonds have been issued, as a total of $903,000,000 in securities has been floated since that date.

The Bank of America has estimated that 40 per cent of this debt was incurred for the purpose of providing highways and bridges, while 18.4 per cent represents indebtedness to provide funds for the payment of state soldier bonuses. The entire standing debt of Iowa, Kansas, Ohio and Washington was created to grant a gratuity to the state's returning soldiers. New York has the largest funded debt, with Massachusetts a distant second and Illinois third.

When the Bankers Convene in Atlantic City

Program of the Fifty-first Annual Convention of the National Organization Covers a Wide Range of Important Subjects and Includes Ample Provision for Entertainment. Division and Section Meetings. Special Trains From the West and South.

IF there were no other reason for attending the convention of the American Bankers Association, which will open in Atlantic City on Monday, September 28 and continue through the week, the fact that this convention marks the completion of a full half century of the functioning of the national association of bankers should in itself call forth a great attendance of bankers from all parts of the country.

For it is not alone that banking has made tremendous strides in that period, but that fifty years of banking cooperation have demonstrated that through the national organization, business and banking may not only be efficiently served, guided and safeguarded but individual advancement may be quickened in ways undreamed of and unforeseen when the American Bankers Association was formed.

In the development of that high degree of cooperation, which is characteristic of banking, the profession has served business quite as much as it has served itself, and, in the extension of the practice of cooperation, the Association has been a means without which it is not likely that the present high state of business cooperation could have been attained.

Opening Session

IT is appropriate, therefore, that early in the program of the first session of the main convention place should be given to an address, "Fifty Years of American Banking," by Lewis E. Pierson, chairman of the board, Irving Bank-Columbia Trust Company of New York, and who is Chairman of the Association's Fiftieth Anniversary Committee. Far from being a mere historical dissertation, Mr. Pierson's address will deal with the creation of the Educational Foundation being established to commemorate this anniversary and to carry on, through future generations, the impulse of the American banker to benefit mankind. One of the most interesting features of the convention will be centered around Mr. Pierson's address presentation.

Preceding this will be the annual address of President William E. Knox of the Bowery Savings Bank of New York City, who will preside at this and at all of the main sessions of the convention.

A feature of the second session of the main convention will be an address by Hon. Frank O. Lowden, former Governor of Illinois, entitled "How the Bankers Can Best Serve Agriculture."

Governor Lowden, a lawyer by profession, has, both as the Chief Executive of his state and as a member of the House of Representatives in Washington, taken a prominent part in the solution of many public questions, and he is certain to bring to the consideration of the bankers seasoned opinions well worth their careful attention.

Another feature of the second session will be an address by Dwight W. Morrow, one of the partners in J. P. Morgan & Company. In the field of international banking, Mr. Morrow is one of the outstanding American financiers. He recently returned from Europe where he conferred with Premier Mussolini of Italy and other notables on the financial situation.

Martin W. Littleton, a prominent lawyer of New York City, will, during the third session of the main convention, discuss "Representative Government versus Direct Democracy." Mr. Littleton is a former member of Congress, former president of the Borough of Brooklyn, New York, and it was he who in 1904 was selected to present to the Democratic National Convention the name of Alton B. Parker for the nomination for President of the United States.

The foregoing are some of the features of the main sessions but of little less interest are the purely organization features which come up from year to year. On Wednesday, there will be held the election of officers and, at the same session, there will be presented the report of the Committee on Resolutions, which, being in a sense the consensus of banker opinion on national business questions, is usually received by the business men of the country with more than passing interest.

Each of the sessions of the main convention will be held in the great Music Hall on the Steel Pier, an ideal place for a big session because the acoustics of the hall are such that the proceedings may be followed without physical strain; and the mere fact that the auditorium is located on an ocean pier must of course convey to all the correct impression of an agreeable temperature and perfect ventilation. Preceding each of the sessions there will be a band concert beginning at 10:00 A. M. Each session of the main convention will open at 10:30 A. M.

Following the custom of years, the program has been so arranged that there is no conflict between the sessions of the convention proper and those of the Divisions and Sections of the Association. The meeting of the Savings Bank Division will be held on Monday morning at 9:30 o'clock but the sessions of the other Divisions and Sections will be held during the afternoons.

The programs for each of these follow:

Savings Bank Division

THE convention of the Savings Bank Division is the opening event of the week. It will be called to order at 9:30 Monday morning in Casino Hall on the Steel Pier and will be presided over by Alvin P. Howard, the President of the Division. The program includes an address on "Investments" by Kent M. Andrew, vice president, La Porte Savings Bank, La Porte, Indiana, and a discussion led by Arch W. Anderson, vice president, First National Bank, Los Angeles, California; "A Profitable Department for a Savings Bank" by Taylor R. Durham, vice president, Chattanooga Savings Bank & Trust Company, Chattanooga, Tenn., and a discussion led by Paul A. Pflueger, assistant vice president, Humboldt Bank, San Francisco, California; "Can Our Banks Justly Complain at the Competition of Building and Loan Associations, as now Conducted?" by Frank P. Bennett, Jr., Editor, United States Investor, Boston, Mass.

National Bank Division

EDGAR L. MATTSON, President of this Division, will call this meeting to order at 2:00 P. M. Monday in the Casino Hall on the Steel Pier and deliver the President's address.

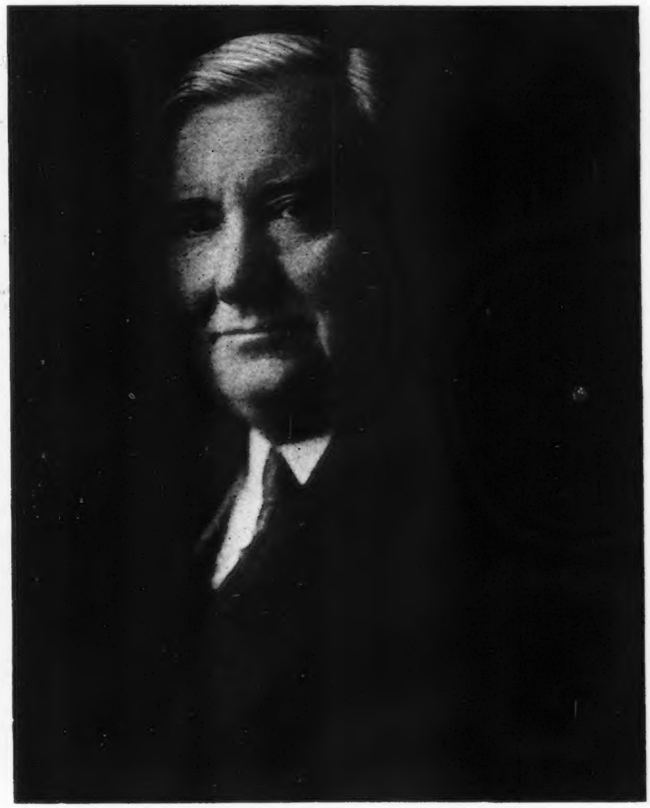
The program for this department includes the following: "Real Estate Loans by National Banks" by A. F. Dawson, president, First National Bank, Davenport, Iowa, followed by a general discussion, and "Decline in National Bank Earnings" by Ben Johnson, president, Commercial National Bank, Shreveport, Louisiana, also followed by a discussion. F. M. Law, vice-president, First National Bank, Houston, Tex., will discuss the "Management of Clerical Departments," while Rep. John Q. Tilson of Connecticut, the new floor leader of the majority party in the House of Representatives, will make an address on "Tax Reduction."

Clearing House Section

THE members of the Clearing House Section will open their session in the Casino Hall of the Steel Pier at 2:00 Tuesday afternoon with President C. W. Allendoerfer presiding.

This section's program includes an address on "Closer Cooperation" by Governor

Oscar W. Underwood, U. S. Senator from Alabama, who will address the State Bank Division



Martin W. Littleton, of New York, a speaker before the Main Convention

W. J. Bailey, Federal Reserve Bank, Kansas City, Mo.; "An Ideal Clearing House" R. F. McNally, vice president and cashier, National Bank of Commerce, St. Louis, Mo. There will also be a general discussion on matters of special interest to clearing house members.

Trust Company Division

LUCIUS TETER, President of the Trust Company Division will call the convention of that Division to order in Casino Hall of the Steel Pier at 2 P. M., Wednesday, and will deliver the President's address. The program of the Division includes the following: "What We Are Doing"; "Visions Realized," Uzal H. McCarter, president, Fidelity Union Trust Company, Newark, N. J.; and "Squaring Promise with Performance," an act from life.

Conference on Community Trusts

There will be a conference on Community Trusts on Tuesday, September 29, 8:30 P. M., in the Library, Eighth Floor, Hotel Traymore, under the auspices of the Committee on Community Trusts. Frank J. Parsons, vice-president of the U. S. Mortgage & Trust Company of New York and Chairman of the Committee will preside. The program for this conference is as follows:

"Reshaping Philanthropic Habits," Ralph Hayes, director, New York Community Trust; "Taxation Problems in Connection with Gifts to Community Trusts," William Greenough, of Patterson, Eagle, Greenough & Day, and counsel for the New York Community Trust; "Wise Distribution of Income from Undesignated Gifts," Charles M. Rogerson, secretary, Permanent Charity Fund of Boston; "Value of Community Trust Affiliations to the Trustee," Leonard P. Ayres, vice-president, Cleveland Trust Company; "Best Methods of Securing Gifts under Wills or Living Trusts," Frank D. Loomis, secretary, Chicago Community Trust; "Best Method of Advertising a Community Trust or Foundation," F. H. Fries, president, Wachovia Bank & Trust Company, Winston-Salem, N. C. A discussion will follow the presentation of each topic.

Business Extension Conference

Wednesday, September 30, 1925, 8:30 P. M. Library, eighth floor, Hotel Traymore. F. W. Ellsworth, Member of the Committee on Publicity, and vice-president, Hibernia Bank and Trust Company, New Orleans, Louisiana, presiding.

State Secretaries Section

THE State Secretaries Section meeting will be held in the Club Room on the tenth floor of Hotel Traymore at 2 P. M., Wednesday, with President W. F. Augustine presiding. The program is as follows: Report of the Secretary-Treasurer, Secretary Robert E. Wait, Arkansas; "National Thrift Week," Edwin Bird Wilson, Chairman, Advertising Council, National Thrift Committee; "Better Banking Methods," C. B. Hazlewood, vice-president, Union Trust Company, Chicago; "The McFadden Bill and Branch Banking," Thomas B. Paton, General Counsel, American Bankers Association.

State Bank Division

THE State Bank Division convention occurs on Thursday, the last day, at 2:00 P. M. in Casino Hall, Steel Pier. President W. C. Gordon will preside. A high point in the meeting will be the appearance of Senator Oscar W. Underwood of Alabama who will speak on "Consolidation of the Railroads," a subject of vital interest to every community.

The progress that has been made in the "Uniformity of State Banking Laws" will be discussed by John S. Fisher, of Indiana, Pa., who is Chairman of the Committee on Uniform Banking Laws of the National Association of State Bank Supervisors. Mr. Fisher is a former Superintendent of Banking for the State of Pennsylvania.

There will be five minute talks on matters of interest to state bank members.

Former Governor George F. Lowden a Convention Speaker

Auditors and Comptrollers

THERE will be a conference of Auditors and Comptrollers at 2:00 P. M. Monday, September 28, in the Submarine Grill, Hotel Traymore. R. H. Brunkhorst, president, Chicago Bank Auditors Conference and auditor, Harris Trust and Savings Bank, Chicago, will preside.

Entertainment

ATLANTIC CITY being primarily a place for rest and recreation, an extensive program of entertainment such as a commercial center might provide is uncalled for in this meeting place. Nevertheless, the entertainment program is varied and calculated to meet diversified tastes. An abundance of music has been provided for all places and all events, and, in addition, there are the following features:

Monday

Monday 3:30 P. M. Yachting party for ladies from the Atlantic City Yacht Club.

7:00 P. M. Subscription dinner, Association of Reserve City Bankers, Silver Slipper Cafe at Kentucky Avenue and Boardwalk.

8:30 P. M. Concert, Steel Pier.

Tuesday

Tuesday 9:30 A. M.-10:15 A. M. Orchestra concert, Convention, Music Hall, Steel Pier.

4:00 P. M-5:30 P. M. Reception for ladies. Haddon Hall.

8:30 P. M. Special vaudeville entertainment.

Wednesday

Wednesday, 9:30 A.M.-10:15 A. M. Orchestra concert, Convention, Music Hall, Steel Pier.

4:30 P. M. Drill of lifeguards, South Carolina Avenue and Boardwalk.

6:30 P. M. Incoming President's dinner to the Presidents and Secretaries of State Bankers Associations, the American Bankers Association and State Vice Presidents staff, Belvedere Room, eleventh floor, Hotel Traymore.

Wednesday 9:00 P. M. Reception to officers and officers elect of American Bankers Association and their wives. Dancing. Music Hall, Steel Pier.

Thursday

Thursday 9:30 A. M.-10:15 A. M. Orchestra concert, Convention, Music Hall, Steel Pier.

6:30 P. M. Subscription dinner, National Alumni Association, American Institute of Banking, Belvedere Room, eleventh floor, Hotel Traymore.

9:00 P. M. Grand Ball with dancing by special artists, Music Hall, Steel Pier.

Friday

Friday, Golf Tournament. Seaview Country Club.

How to Obtain Reduced Railroad Rates

FOR the purpose of obtaining transportation to the convention on the basis of a fare and one-half for the round trip, an identification certificate has been sent to each member. This certificate is for the use of one person representing a member bank, and to include the immediate members of his family. Additional certificates are required for other representatives and their families and they may be obtained upon application to the Association at 110 East 42nd Street, New York City.

The name of the person to whom the certificate is issued, also the names of the dependent members of his or her family if more than one ticket is purchased, should be filled in before the identification certificate is presented and surrendered to ticket agent. This is a requirement and it is important to comply with it for by so doing congestion at the ticket offices before train time will be avoided.

The trip must be made going and returning by same route.

Round trip tickets require validation by ticket agents of terminal lines at Atlantic City, or by railroad representatives at the Hotel Traymore, Atlantic City, on any date to and including the final return limit. Stopover privileges will be allowed going and returning, or both, but passengers must reach the original starting point prior to midnight of such final return limit.

For general information relative to transportation see the July issue of the AMERICAN BANKERS ASSOCIATION JOURNAL, page 40, but for details inquiry should be made of the local ticket agent.

Special Trains to Atlantic City

MISSOURI - Kansas - Arkansas - Texas special, via Missouri Pacific will leave Kansas City on the evening of September 25. Arrives St. Louis September 26, 7:05 A. M. and leaves at 9:00 A. M. Arrives at Washington, D. C., Sunday at 9:00 A. M. Stop-over in Washington until 3:00 or 4:00 P. M. Arrives Atlantic City Sunday, September 27 at 8:00 P. M.

The Michigan Special, via Pennsylvania Railroad leaves Fort Street Union Station (downtown, 3rd and Fort Streets) at 5:00 P. M. Detroit time, Saturday, September 26. Arrives Atlantic City, Sunday morning, at 10:45 A. M.

Special cars from Grand Rapids via Pere Marquette Railway will leave September 26 at 11:40 A. M. Central time, (12:40 Grand Rapids time). Arrives Detroit 4:40 P. M. where they are attached to the Michigan Special.

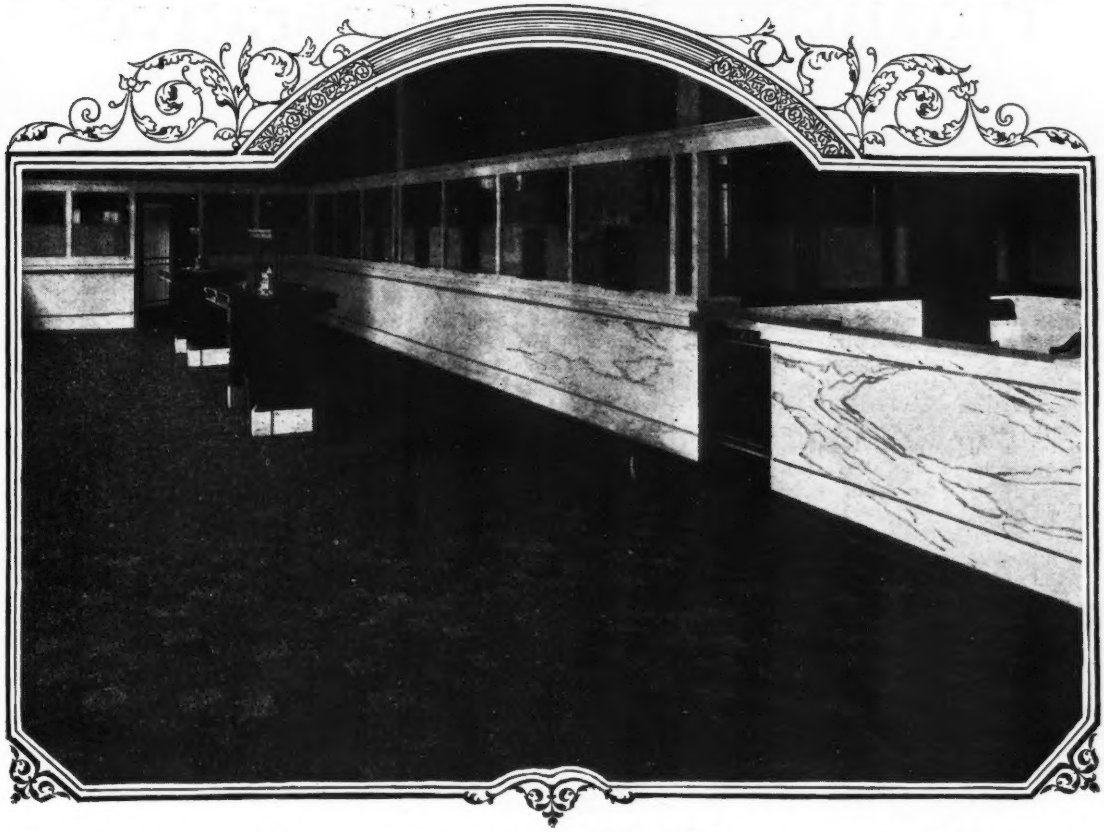
The Indiana Special will leave Indianapolis via Pennsylvania Railroad.

The Falltonic Special Train from Chicago and West will leave Chicago via Pennsylvania Railroad 10:25 P. M. Friday, September 25. Arrive Pittsburgh 10:00 A. M. September 26. Leave Pittsburgh 10:30 P. M. Saturday, September 26. Arrive Atlantic City, 9:30 A. M. Sunday, September 27. Time shown is Central Standard.

Special cars are also being contemplated from Tennessee and Kentucky.

The Oscar Wells Special

AS a tribute to the first vice-president Oscar Wells of Birmingham, Alabama, Southern bankers have designated a train to Atlantic City the "Oscar Wells Special."



Make Your Bank a Comfortable Place to Do Business

This illustration shows the dignified room that houses the City Building branch of the Union Trust Company of Cincinnati. The public space is floored with Armstrong's Cork Tile; quiet and comfortable and very attractive in appearance.

PEOPLE like to do business comfortably. They like to come into a bank that is quiet and dignified; where every detail of equipment and furnishing contributes to make the surroundings agreeable and to put them at their ease. And unquestionably, too, employees do better work in such environment.

It is because people *do* like to do business comfortably that so many of the better-designed banks now have floors of Armstrong's Cork Tile. This quiet, comfortable, "easy-on-the-feet" floor is distinctly an asset. In the public space and officers' quarters, customers appreciate its quietness and beauty. In the working spaces, employees are grateful for the relief it affords from the strain of long standing and working on their feet. From the standpoint of both customers and workers, Armstrong's Cork Tile is a floor eminently suited to the peculiar requirements of the bank.

A sample of the tile and a copy of the book, "Armstrong's Cork Tile Floors," with full information, will be sent on request.

ARMSTRONG CORK & INSULATION COMPANY
Division of Armstrong Cork Company
176 TWENTY-FOURTH STREET, PITTSBURGH, PA.
Also manufacturers of Linotile Floors

Armstrong's Cork Tile

Financing the Cooperatives

By OLIVER J. SANDS
President, American National Bank, Richmond, Va.

Loans Based Entirely Upon Value of Commodity Without Additional Security Afforded by Capital Investment, Can Be Extended Safely. Credit Margin Depends on Excess Value of Commodity Pledged Above Amount Borrowed. Best Loan Form.

LOANS to cooperative associations are, in their essential characteristics, similar to loans to individual partnerships or corporations, which borrow on their raw materials on hand, in process of manufacture, in storage, in transit or sold for future payment. Cooperatives differ generally in that their loans are based entirely upon the value of the commodity without the additional security afforded by a capital investment in plants or other fixed assets.

The criticism of credit men that cooperatives have no paid in capital to fortify or protect loans beyond the value of the commodity pledged, is, in a careful analysis of credit statements of merchants or dealers in commodities, not always borne out by facts.

For instance, a dealer may have a capital of one million dollars with an investment in wool of three million dollars. His outstanding obligations are two million dollars. It is apparent that his margin of safety or capital investment is one million. He has borrowed two-thirds of the value of the wool and, therefore, has for the protection of his creditors one-third in excess of his loans.

Capital Remains Intact

THIS case is identical with a cooperative which has borrowed 66⅔ per cent of the value of its commodity. The only difference is that the dealer's capital remains intact or is increased or decreased by his profits or losses. In the case of the cooperative, the margin remains fixed, regardless of the amount of loans outstanding.

If loans are reduced, it is presumed that distribution is made to members of all sums received from sales above the sum necessary to maintain the proper margin on outstanding loans.

If the usual form of term contract is entered into by the members of the cooperative, the loans are fortified by the obligations of the deliveries of the members during the life of the contract.

It would appear, therefore, that the members' equity in the commodity plus the obligation of the association, forms a capital protection equal to and in many cases superior to the capital of the individual or corporate dealer in the same commodity.

The association's credit has some qualities superior to the merchant's credit; the association has one object only—to dispose of the commodity as quickly as possible so that the cash above the loans and expense of operation can be paid to its members. Those, who are in control of the association's business, have no interest in the amount received other than that of trustees and the temptation to speculate or invest capital in side lines unduly inflate values for borrowing purposes, expend capital in fixed investments and do the many things which are not uncommon in private business, do not exist.

An association organized without capital, therefore, has a real, an actual capital represented by its members' equity which is as substantially existent as the capital of the merchant.

The Credit Margins

MOST associations have some form of fixed capital but those with which I am most familiar, depend for their credit margins almost entirely upon the excess value of the commodity pledged above the amount borrowed on the commodity.

Commodity loans from the bankers viewpoint are judged upon: 1. The character of the borrower first, as in all loans, and, 2. The marketability of the commodity, which determines very largely the margin required. A commodity that finds always a ready market at a slight price fluctuation is much more desirable than a commodity which has a specialized or limited market. A perishable commodity which requires special storage facilities either warm or cold and is subject to deterioration, is least desirable and must be protected by a good capital investment in form of cash margin or other assets from which any loss may be recovered.

Collateral loans to cooperatives may be made in the form of a direct loan upon a given quantity and character of merchandise. This merchandise may be held by several methods: viz., by a receipt of an independent holder of the security—such as bonded warehouse, the most approved form being the Federal licensed warehouse, operated under Federal statutes.

There are other forms of independent holding of merchandise by which the security title to the commodity passes, the State laws making provision for such transactions. The essential is that the receipts held convey security title to the holder of the obligation.

This direct loan has some advantages, particularly to the banker, who is in position to keep in close touch with the market and knows the special character and value of the collateral pledged for his particular loan.

The Best Collateral Loan

ANOTHER form of collateral loan and the one to my mind the most desirable for cooperative loans is that in which the entire holdings of the association are turned over to an agent representing the banks and the association, and all storage receipts are made to such agent; the agent in turn delivering to the banks its certificate covering a given value of merchandise which is held for the lending bank.

This method is desirable to the bank because, in case of commodities of different grades, the risk is distributed over the entire stock and payment is not dependent upon a particular part or grade, and the representative of the bank can specialize in the business and thereby put himself in a position to note all sales and methods and thereby be better able to protect the loaning bank by receiving special reports and protect the lending banks during the life of the loans.

The advantage of this form to the association is that it deals with one institution in the handling of the many details incidental to the pledging of the collateral and particularly in the transferring of the commodity to the purchaser.

The agreement covers the acceptance by the agent of shipping documents and assignment of accounts against buyers in the line of the commodity and facilities in every possible way the conversion of the commodity into cash and the liquidation of the loan.

Each association has its distinct credit problem governed by its location, character of commodity and banking facilities.

Can Use Bankers Acceptances

THROUGH the facilities and rulings of the Federal Reserve Banks, the bankers' acceptance, secured by a readily marketable staple commodity, is a desirable form of investment which commands a low rate of discount. Cooperatives can arrange with banks to accept such drafts and sell them in the open market or most frequently the banks will buy the drafts and sell them as their own acceptances or hold them as their needs may require.

The Intermediate Credit Banks are proving of great value in the making of collateral loans to cooperatives and, owing to the distance of these banks from the headquarters of the associations, the credit agreement by which the collateral warehouse receipts are pooled and held by a joint agent

(*Concluded on page* 176)

The Condition of Business

Reports of Industry, Trade, and Finance Bear Out The Recent Improvement in Business Sentiment. Larger Crop Returns Indicated. Firmer Tendency in Money Rates. Belgian Debt Agreement Marks A New Milestone in Post-War Adjustments.

THE more optimistic attitude toward the domestic business outlook, which appeared in July, has been supported in general by the actual results, as these have registered themselves in a wide variety of business and financial statistics. Industrial activity has averaged somewhat larger; building construction has continued at record levels; distribution of goods has expanded, partly, it is true, in response to the usual seasonal influences; wholesale prices have tended upward; and money conditions have become slightly firmer.

In the field of foreign affairs, two recent events stand out predominantly. Funding of the Belgian government debt to the United States, subject to approval of the United States Congress and of the Belgian government, makes Belgium the sixth country to provide for its obligations to the United States. Countries which previously have concluded funding arrangements are Great Britain, Poland, Finland, Lithuania and Hungary. The total of foreign loans so funded is now raised to approximately $5,160,000,000, out of a total of about $12,000,000,000. In the case of Belgium, repayment of principal of the pre-Armistice debt of $171,780,000 without interest, and of the $246,000,000 post-Armistice debt with interest at 3½ per cent amounting to $310,050,000, will be made over a period of 62 years in annual instalments of about $12,700,000, except during the first ten years, for which smaller fixed payments are specified.

A second event of international importance was the reduction on Aug. 6 of the Bank of England's discount rate from 5 to 4½ per cent. This was a natural result of the increase in gold holdings of the bank since the resumption of gold payments in April, the inflow of foreign balances to London, and the consequent easier tendency in open market money rates. Following reduction in the bank rate, however, the bank lost gold amounting by the end of August to £1,550,000. Partly as a result and partly apparently in sympathy with the firmer money rates in the United States, money conditions in London tended to become somewhat firmer again.

Domestic Industry and Trade

AFTER a continuous decline since January, production in the principal basic industries throughout the country turned upward in July. The Federal Reserve Board's index, which covers twenty-two lines of basic production and makes allowance for usual seasonal variations, advanced by approximately 2 per cent in July to a point nearly 20 per cent above the low level of a year ago. This change reflected chiefly larger output in lumber, coal and cement, together with less than the usual seasonal curtailment in mill consumption of cotton. Production of automobiles, rubber tires, and silk continued to be large in July, although these industries are not represented in the board's index.

Among the many evidences which might be cited to show the continued high rate at which goods of all sorts are being distributed in wholesale and retail channels throughout the country, the movement of freight traffic as reported weekly by the American Railway Association is only one. In the five weeks ended Aug. 15, the railroads of the country moved 5,200,000 carloads of freight of various kinds—a total 11 per cent greater than in the corresponding period of last year and equal to that for 1923. As had been the case for some time, the increase in loadings as compared with last year represented chiefly larger movement of merchandise and miscellaneous commodities. Increases or decreases in these classes of freight are generally considered especially indicative of the general run of business, since they include manufactured products of many kinds, and raw materials used in manufacture, as well as a large variety of goods moving into retail consumption and onto merchants' shelves. The accompanying table gives the figures of car loadings during the five weeks ended Aug. 15, as well as cumulatively since the first of the year. The figures, which are in thousands of carloads, are sub-divided to distinguish the various types of freight carried. Comparison is also shown with the traffic movement in the corresponding periods of last year (which are taken as equal to 100 per cent).

Class	Five Weeks Ended Aug. 15 1925	Five Weeks Ended Aug. 15 Per Cent of 1924	Jan. 1-Aug. 15 1925	Jan. 1-Aug. 15 Per Cent of 1924
Merchandise, L. C. L.	1,280	107	8,237	105
Miscellaneous	1,896	111	11,347	110
Grain and produucts	252	93	1,346	94
Live stock	141	97	959	93
Coal	910	124	5,409	107
Coke	47	136	365	109
Forest products	353	106	2,444	103
Ore	321	118	1,236	116
All classes	5,200	111	31,345	106

The smaller movement of grain and grain products in recent weeks, relative to last year, reflects partly the fact that wheat growers do not feel the pressure of store and bank debits as much as then and hence are marketing their product less rapidly. Returns from last year's crop were sufficient in a large proportion of cases to wipe the slate clean and leave something over. Heavier movement of commodities mentioned above has been notably in the districts which enjoyed good wheat and cotton harvests last year. The same story is told by record breaking sales of life insurance in these sections, large gains in mail order trade, and in the farm implement business. The Chicago Reserve Bank gives the following data relative to the business of companies making a large part of the agricultural machinery and equipment in this country:

	Per Cent of Change July, 1925, Over July, 1924
Domestic sales billed	+34.6%
Export sales billed	+69.2
Total sales billed	+40.1
Production	+41.3

These comparisons for July follow a six months period during which sales averaged 26 per cent higher than in the first half of 1924 and 21 per cent higher than in 1923.

"The pronounced increase of business confidence in this district as compared with a year ago is an important influence affecting current and prospective business," says the *Monthly Review* issued Aug. 28 by the Federal Reserve Bank of Minneapolis. . . "Business conditions in July were quite different from those prevailing a year earlier. There was a greater volume of business. . . . Purchasing power, particularly in the agricultural sections of this district, was larger. . . . Financing was easier. . . interest rates to customers of member banks were slightly lower, and public participation in the purchase of securities greater. Interest rates paid by Minnesota farmers on choice first mortgage loans have reached levels lower than those prevailing at any time during the past thirty years. The general improvement, as compared with the preceding year, was well maintained in the early part of August."

Increased Crop Values

ALTHOUGH the composite condition of the principal crops reported by the United States Department of Agriculture on Aug. 1 was below the average of the last ten years, their prospective value to the growers was much higher than in recent years. Based on Aug. 1 estimates for all crops, except cotton, and Aug. 15 prices at the farm, the New York Federal Reserve Bank estimates the farm value of the principal crops at about $8,700,000,000. This

represents an increase of 7 per cent over the amount received last year and of more than 75 per cent as compared with 1921.

Compared with last year, the increase in values is largely due to corn, although cotton and a number of minor crops also promise substantially larger returns than last year. The increase in probable returns from the corn crop, however, is perhaps the most significant feature in the crop situation. Wheat growing sections had a very successful year in 1924, and while much of the proceeds had to go for debts, yet all business in these sections has been greatly benefited. The corn and livestock country, however, did not have a good year in 1924. The Middle West depends chiefly on the corn crop and good returns mean the restoration of more normal conditions in that region. With abundant corn supplies, cattle and hog production will be more profitable.

The mid-August government forecast on cotton indicated a crop of about 13,990,000 bales, or 300,000 bales more than the unusually larger crop ginned last year. Substantially larger crops are indicated for North Carolina, Mississippi and Arkansas, but the Texas crop will apparently be considerably smaller than a year ago.

Price Relations Readjusted

THE recovery which has recently been taking place reflected the re-establishment of more normal relations between the agricultural and other members of the business structure. When the structure is in equilibrium and prices of various types of commodities are in adjustment, the products of the several divisions of the country circulate freely. But when through an economic maladjustment, the purchasing power of one section is greatly out of line with the others, the effect is felt throughout the whole business structure of the country.

The change which has come about in the past year in the ratios at which the several sections of the community exchange their products is suggested by the following table of wholesale prices in July 1925 and a year earlier. The figures are those of the Bureau of Labor Statistics, with 1913 = 100 per cent.

Commodity Group	July, 1924	Difference From Total	July, 1925	Difference From Total
Farm products	141	— 6	162	+ 3
Foods	139	— 8	157	— 2
Cloths and clothing	188	+41	189	+30
Fuel and lighting	173	+26	172	+13
Metals and products	130	—17	126	—33
Building materials	169	+22	170	+11
Chemicals and drugs	127	—20	133	—26
Housefurnishings	171	+24	169	+10
Miscellaneous	112	—35	143	—16
Total, all commodities	147	0	159	0

The general level of wholesale prices is seen to have risen during the year from 147 per cent of the 1913 average to 159 per cent. This has been due chiefly to increases in farm products, derived food products, and miscellaneous articles. Other groups have shown very little change. These readjustments have brought the prices of the various groups of commodities into better alignment with each other, and agricultural and food products stand on about the same level as all other (i.e., non-agricultural) groups combined.

Purchasing Power of Farm Products

These statistics relate to wholesale prices and it might be thought that the comparison would not necessarily apply to the retail buyer in the farming districts. That the same situation exists, however, when the retail form buyer is considered is brought out in a recent study of the South Dakota College of Agriculture. This shows how the prices of the thirteen principal farm products of that state, as sold locally, compare with the prices of the more important non-agricultural products, as purchased locally. By comparing prices in the local markets, the influence of freight rates and middlemen's charges are practically eliminated. Average prices of agricultural products and non-agricultural products over the four-year period 1910-1913 were taken as the par of exchange relations, that is to say, that $1's worth of South Dakota farm products during the years 1910-1913 purchased $1's worth of non-agricultural products. It was then calculated how much of the non-agricultural products could be bought by each of the thirteen agricultural products, and all of them combined, in June 1924 and June 1925. It was found that in June 1924 the average purchasing value of farm products worth $1 before the war was only 70 cents, while by June of this year the purchasing power had advanced to 96½ cents.

The farm products considered in the study included livestock, poultry, dairy products, wool, wheat, oats, corn, flax, barley, hay and potatoes.

In short, taking the agricultural situation as a whole, the outlook at the beginning of September was distinctly encouraging for a good return to the growers. Business in

many lines was already beginning to feel the effects of this stimulus.

The Credit Situation

DEMAND for commercial credit at member banks in leading cities increased in the early part of August and the volume of such loans on Aug. 12 was larger than at any time since the middle of May. The total was considerably below the level at the beginning of the year, however. Commercial borrowing through the open market continued to be very small, combined reports from twenty-six commercial paper dealers showing a further decline of 4 per cent in the volume of paper outstanding to the lowest point in any July since 1921.

This moderate use of credit, both directly by customers at their banks and indirectly through the open market, notwithstanding the high level of business activity, continues to be a feature of the business situation. The most comprehensive indexes show that business generally is better than a year ago by from 6 to 10 per cent. (This is after allowing for the normal year to year expansion which is to be expected through the growth in population.) But commercial loans of the weekly reporting member banks on Aug. 19 were only 2 per cent larger than a year previous. A summary of changes in the principal assets of reporting member banks during the year ended Aug. 19, 1925, follows:

	(In Millions)
Loans on stocks and bonds increased....	$724
All other loans (commercial) increased..	168
Investments increased	411
Total loans and investments increased...	$1,333

The bulk of the increase has been in loans on stocks and bonds, while a somewhat smaller part has been in investments. Only one-eighth of the total was in loans for commercial purposes. This relatively light demand for commercial credit is one of the results of the merchandising policy which has been followed in many lines for some time. Ample manufacturing facilities, absence of labor troubles which might interrupt production, and prompt delivery of freight by railroads, have made it unnecessary to carry large stocks of goods on hand, and as a result buying only for immediate needs with frequent reorders has been the accepted rule. By carrying only moderate inventories and securing a rapid turnover, cash positions are strengthened, and the demand for bank accommodation is reduced.

Larger absorption of bank credit by the security markets and the outflow of gold amounting to about $175,000,000 since last Dec. 1 have been factors leading to a somewhat larger use of Reserve Bank credit recently. Total earning assets of the twelve regional banks combined increased in August and on the twenty-sixth were near the high point for the year and $271,000,000 larger than a year previous. A summary of changes in principal earning assets during the year follows:

	(In Millions)
Bills discounted increased.............	$317
Bills bought increased	152
U. S. Securities decreased.............	209
All other earning assets increased......	11
Total earning assets increased	$271

Moderately larger demand for commercial credit and the continued requirements of the security markets, following the substantial gold outflow earlier in the year, led to firmer money conditions in August. The open market rate on prime commercial paper advanced ¼ to 4¼ per cent, the highest since May 1924. Rates on stock exchange loans also advanced, and bankers bills rose late in the month ⅛ to 3½ per cent. A summary of rates prevailing on different types of money in August and a year ago follows:

	Prevailing Rates August, 1924	Prevailing Rates August, 1925
Commercial paper, prime....	3-3¼%	4¼%
Bankers bills, 90 day, offer.	2¼	3¼
Call money, renewals........	2	4¼
60-90 day loans............	2¾-3	4¼-4½

Rates on commercial loans, as represented by prime commercial paper and bankers bills, are about 1 per cent higher than a year ago, while time loans are ranging about 1½ per cent higher and call loans 2 to 2½ per cent higher.

Helping the Others

Whatever else coal strikes in the United States may be accomplishing, they are pretty sure to be very helpful to those engaged in developing larger markets for gas and electricity. Incidentally they are making the public more sympathetic to water-power development projects.

How Employee Control Is Working

By F. R. KERMAN
Asst. Vice-President, Bank of Italy, San Francisco

THE first records of the experience of the Bank of Italy under its recently announced change of policy, by virtue of which the control passes to the employees, are now available. They show that during the six months that this plan has been in operation the bank has experienced a deposit increase of $10,000,000, added a million dollars to surplus, and another million to the surplus account; 15,000 new accounts have been secured and the dividend rate has been raised to 15 per cent.

Individually the employees have benefited to the extent of $531,459.80 distributed in stock. This has cost them, on the average, $74.25 for a share of stock having a market value of $310. Actually the employees put in out of salary $133,767 and the bank added $397,692.80.

The new plan, in general, provided that 40 per cent of the bank's profits should be set aside at the end of each semi-annual period, and to this should be added a sum contributed by the employees from salary. Limits were placed upon the amount that any individual might put into the general pool, the thought being to prevent an unbalanced participation. As a result the whole staff has felt encouraged to have a part in the undertaking—and there is actually 100 per cent of the personnel signed up for a share in the plan.

The entire structure is founded upon the expectation that eventual control of the bank will be vested in the employees, and the present basis on which the profits are shared is simply a convenient means to accomplish the desired end. The dividends on the stock transferred to the employees are paid to them. It is not held back or set aside against some future contingency, but is paid over in cash. Ultimately, it is foreseen that the dividends may actually pay the employees' contribution to the stock purchase fund. And as ownership of the institution is acquired, it becomes obvious that in addition to the present 40 per cent of the profits now received, the employees will also get the other 60 per cent in the form of increase in surplus and undivided profits as well as dividends.

The plan is not substituted for salary adjustments. The scale of pay and rate of advancement in compensation is in no way interrupted by the new arrangement. The bank maintains its standard of remuneration without reference to the amounts received by the employees through their ownership of stock.

From the stockholders' standpoint, there has been an appreciation in the value of their holdings, amounting to $63.00 per share. The market price, since the plan became effective, has jumped from $247 to $310. In addition they have seen the dividend rate increased to 15 per cent and a substantial addition made to the profits account.

As far as the customers are concerned there are really two facts that interest them. By the augmented surplus fund—$1,000,000 added during the six months just past—there is a further guarantee of the safety of their deposits. An even greater measure of service is afforded them—for every employee is consciously striving to make a better job of the bank's management, to the end that the customers will be completely satisfied, with resultant increase in the institution's profits.

If the plan were simply a handsome gesture—an affectation, or mannerism—in all probability it wouldn't be more than a flash in the pan. But back of it is an honesty of purpose that has insured its success from the outset. The desire exists to see the bank owned and controlled by its employees.

Jubilee Silver Coins

In celebration of the 75th anniversary of California's admission into the Union, commemorative 50-cent pieces have been struck off at the San Francisco mint to the number of 300,000.

The sale price of the coins is $1 each. Those desiring coins should send direct to the California Jubilee Souvenir Coin Committee, 439 Phelan Building, San Francisco and the purchasers will receive their coins direct from the Federal Reserve Bank of San Francisco.

He Did Not Tell

By CARL M. SISK

Former National Bank Examiner

PROBABLY the most interesting of many experiences I have had as a national bank examiner was that in which the president of a bank became personally liable for a large sum, though he did not profit, nor intend to profit, by anything he did.

How it all started is the oft-repeated story of a cashier playing the market a little. He won some, but lost more and just "borrowed temporarily" from some customer's account, feeling certain he could pay it back in a short time. He dipped in a little deeper; everything went against him, and he took still more.

By this time the cashier in this story was dealing with several brokerage firms, probably in the hope that he could hide his condition from them. The accounts were carried in the name of the bank, but were paid by the cashier's personal check. This in itself was sufficient notice of fraud, but only one broker took the pains to call the procedure to the notice of the cashier's superiors. The notice was in the form of a letter to the president. In this the broker stated that the account as run by the cashier was so very unusual that he deemed it proper to call it to his (the president's) personal attention.

The president replied that he had interviewed the cashier, who had made satisfactory explanation, but the president requested that the broker should send a copy of the monthly account current to his private address, which was done.

It appears that the president, upon receipt of the letter of warning, took the matter up with the cashier, who misled the president by stating that the securities, under order, were for various customers of the bank, and as the customers came in and settlement was made, he would remit to the broker.

This was the status of the situation when, through a cash item, it was discovered that something was wrong. A shortage in excess of $100,000 was uncovered. Savings deposits had been appropriated; collateral and safekeeping funds stolen; checks and notes forged; travelers checks issued, and no accounting made therefor, and the cashier had even retained the second key to safety deposit boxes of unsuspecting customers and the marketable contents of these boxes were sold. With all this going on neither the president, who was in the bank from 9 a. m. to 3 p. m. daily, nor any of the employees suspected that anything was wrong.

When I questioned the president, he denied having any suspicion that there was anything wrong with the cashier. I was fortunate enough, however, to get a copy of the correspondence between him and the broker who had sent the warning. With another examiner, who was sent to my aid, we examined the president under oath. Again he denied all knowledge of any warning, whereupon the correspondence between him and the broker was read to him. Then he lapsed into unconsciousness. On recovering he admitted that he had made a serious mistake by not turning these letters over to the board of directors, for he now began to realize that it was their business, not his, to run the bank.

Had he given the directors the correspondence, the responsibility would have been on them to heed the warning.

A report of the examination of the president was given to the board of directors, with the examiner's opinion that the president was legally liable personally for such losses as the cashier's bond and personal estate would not provide for.

Expert legal talent was employed by the directors on one side and the president on the other, but the case never went to court, the matter being settled by the president paying a sum considerably in excess of $40,000.

And that was not all that he paid, for on the afternoon that he was examined, he for the first time realized that matters pertaining to bank directors' duties are not personal affairs, and he went home a broken man, never leaving the house until about two months later, when he went to his grave.

As It Looks in Riff

The New Coins of Guatemala

By FRANCISCO SANCHEZ LATOUR
Minister of Guatemala to the United States

The New Dollar of the Latin American Republic Is Called the Quetzal, Named After the National Bird, Symbol of Liberty. The Money Which Is Being Minted in This Country Will Replace Bills Now in Circulation. President Orellana Optimistic.

AFTER a period of twenty-eight long years of a paper money regime, Guatemala has come back into her own and is now receiving her new silver money to be followed shortly by an issue of gold coins and smaller fractionary ones of copper-aluminum alloy. The principal object of the law of November 26, 1924, was to prevent the continuation of constant fluctuations in the rates of foreign exchange which naturally lent themselves to all sorts of unlawful and unscrupulous speculations.

The economic situation in Guatemala went from bad to worse from 1897 to 1922, and was considered such a difficult and delicate problem to handle that none of the rulers dared to do anything about it although on different occasions foreign loan proposals were taken into consideration as a means of settling it. Our silver was exported out of the country in 1897, because of the high price of silver at that time, and I understand most of it was sent to China.

In spite of the war, exchange was 36 to 1 in 1918, and went down to 30 at the beginning of 1920, but during the short administration of President Carlos Herrera, in 1921, it went up to 60 for 1, and reached the pinnacle of 65, and it was at that high point when General José María Orellana was elected president by the Liberal party. Being a man of progressive ideas and realizing that the nation could not really prosper until the economic and financial situation was solved, he shortly afterwards took the necessary steps to fix a rate of exchange, boldly deciding at the same time to reorganize the finances of the country completely, and to use only domestic resources for that purpose.

THE first step taken was the establishment of the "Caja Reguladora" or Exchange Regulating Bureau, which immediately put an end to all irregular transactions and speculating. Then it was decided to issue new money to replace the bills in circulation, of which the total was about 423,000,000 pesos, issued by the different banks, whose deposits had gradually passed into the hands of the government through continuous loans. Exchange was fixed at 60 to 1, that is, sixty pesos paper for an American dollar.

The name of the new standard silver coin is the Quetzal, its value being one dollar or 60 pesos; its weight is 33 1/3 grms., tolerance 0.150 grms. and fineness .720. Silver pieces of one Quetzal, a half Quetzal and a quarter Quetzal are being coined and sent to Guatemala, every two weeks, the work being done at the United States Mint in Philadelphia. Some of this money is already in circulation and the silver issue will reach a total amount of 2,000,000 quetzales or dollars. The gold coins will be of a value equivalent to \$20, \$10 and \$5, and will be 90 per cent gold; the fractional coins of 91 per cent copper and 9 per cent aluminum to be issued will not exceed \$3,300,000.

The new Quetzal bears the name of the bird of that name, our national emblem, the emblem of liberty, for not one has ever lived in captivity. To us it is still, as it was to our Maya ancestors, a sacred bird, the symbol of our sovereignty and independence, so much so, that when our Maya king, Tecúm Umán, decided to have his personal and unequal combat with don Pedro de Alvarado, the Spanish conqueror, to stop further bloodshed, according to Maya traditions, a Quetzal, in its efforts to help the king, pecked at the eyes of don Pedro, through the holes in his helmet, the only vulnerable point, as he was clad in steel from head to foot. Once again that sacred bird at the call of a Guatemalan warrior has come to help its native land, and bring it out of financial chaos, which in modern times, has been as terrible as slavery.

AS a continuation of the good work already done, comes the establishment of what will be known as the Central Bank, the only bank of issue for the next thirty years. Its authorized capital is to be of 10,000,000 quetzales, which will allow a sum large enough to establish a reserve fund in gold equivalent to 2,800,000 dollars, to convert the paper money now in circulation. For the establishment of that reserve fund the government will furnish the various sums due the banks, the cash in the Exchange Regulating Bureau and other taxes and excises set aside for the purpose by the government. Once the reserve fund is established the acceptance of paper money will cease to be compulsory, and it will be exchanged at sight, for quetzales, or drafts with a commission not exceeding one-half of one per cent.

The bank will be a stock company, in which the government will hold no shares, its subscribed capital, 5,000,000 quetzales or dollars, and paid up capital two and a half million. The rate of interest on loans will not be over 10 per cent a year. The shares are to be of 10 and 100 quetzales, so that even the poorer classes may be able to get them and contribute with their mite in the patriotic work undertaken by President Orellana for placing Guatemala financially on its feet, and abandoning a discredited paper money system for a solid gold basis, within a very short time, something that everybody would have considered impossible not very long ago.

THE books for the subscription to the shares of the Central Bank were opened on June 30, the anniversary of the triumph of the liberal party in 1871, and reports reaching here lately indicate that the total amount has been practically subscribed. In his appeal to the people of Guatemala, referring to the law of November 26, 1924, President Orellana said:

"Earnest patriotism or optimism does not blind me when I say that I am positive that my government has taken a step both resolute and momentous in spite of the present handicaps, toward insuring the future of Guatemala through the country's own resources. Nothing is there that cannot be successfully completed, provided that, as is the present case, we do our share with honesty, unshaking faith and a strong will. Although we came to the brink of economic disaster, the nation will be saved through the redeeming task we are undertaking, which must be carried out, and is already being carried out with prudent organization and with patriotism."

Guatemala is relatively speaking, a small country, it has an area of about 50,000 square miles and a population of over 2,000,000 inhabitants, but its natural resources, mostly undeveloped up to now, are inexhaustible. Its foreign debt amounts to only \$12,000,000, which we owe to the British.

Checking Up on Business Forecasts

By LEWIS ALEXANDER

Definite Improvement in Opinions Precedes Upturn in Business by Two Months, but Break in Activity Comes Before Prophecies Grow Pessimistic. How the Western Electric Charts the Services. Accuracy of Predictions, and Results if Followed.

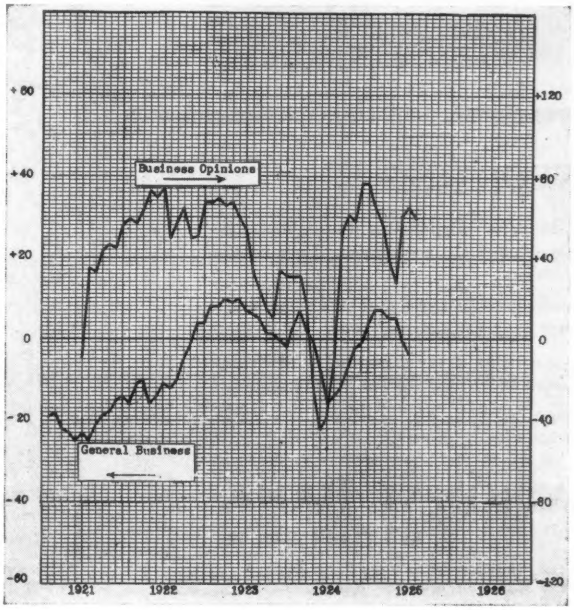
CHECKING up on the predictions of business forecasters reveals the American as a first-class optimist but a dub as an unwilling pessimist.

By charting the opinions expressed during the past three years, by the outstanding business services and by the leading banks as to the future trends, it has been shown that there has been a definite improvement in the opinions given by the forecasters about two months before the upturn has actually come. But when a review is made of advance warnings of a slump in business there is another story to tell. The break in business activity frequently has come before the change in the business opinions has been recorded.

Fortune telling, when it comes to personal affairs, is as old as the stars. Fortune telling in business and finance, through anticipating changes in conditions, is more or less a new science—if it could be called that. The growth in the activity of banks in publishing letters and booklets treating the condition of business and, in rarer cases, predicting conditions that will prevail in the immediate future has been one of the most noteworthy sidelines developed in recent years. The banks that engaged in this work before the war could be counted on the fingers. Today there are very many institutions that report periodically on the condition of business and occasionally venture into the precarious field of prophecy.

The motives that led banks into this field were doubtless mixed. First, it was felt that a great deal of valuable publicity would accrue to the bank through this enterprising effort, and the activity came at a time when the earnings were large enough to justify the expense. In many cases it did not involve any considerable additional outlay, as the bank, in the course of its ordinary operations, was required to gather the information for its own guidance. The postwar collapse of inventories that cost the banks millions of dollars in charged-off losses spurred many large institutions to build up organizations that were capable of making commodity surveys so that they might avoid similar missteps in the future.

If we only knew what was going to happen, we might capitalize this knowledge by accumulating millions. Every business firm has to make its plans for the future and thus every executive in a responsible position has to form certain opinions as to what conditions will be a week, a month or perhaps a year ahead. So for numberless years, the more ingenious have been seeking to devise systems that will make future events cast their shadows before them plainly enough to be recognized. The widespread demand for reliable opinions as to future trends led to the creation of many so-called business services, which claimed that they could foretell future conditions with reasonable accuracy because their predictions were made by men skilled in the technique of probabilities and trained in interpreting the bearing that current statistics may be expected to have as to future developments.



This chart shows how business opinions have turned upward generally in advance of the general business, which is represented by a curve showing production in ten basic productions. Production has ordinarily declined, however, before the opinions have reflected this bearish feeling

As forecasts of business conditions have gained wider currency, the average banker, business man or individual investor has doubtless pondered over two or three questions. How accurate are the predictions that are made by the business services—what are the "hits" and the "misses"? Can the information be applied profitably in my business? Will it inform me as to the investment opportunities that will enable me to make a profit? Many of the business services have listed among their subscribers some of the largest banks and corporations in the country, so the speculation has grown as to just how much value should be attached to the services and to business opinions.

There is probably no business organization that goes in more for statistics than the American Telephone & Telegraph Company. The nature of its operations makes it imperative that its plans for manufacturing and expansion be laid far in advance. The present head of the two billion dollar business enterprise is credited with having suggested the profitable "nite letter" and "day letter" scheme for the Western Union telegraph company as the outcome of a statistical study of the volume of messages filed, which showed that this class of telegraphic service might be handled during the lulls. The Western Electric is one of the A. T. & T.'s subsidiaries—but it is reputed to be the largest manufacturer of telephonic apparatus in the world and the largest jobber of electrical supplies in this country.

Monthly the statistical department of the Western Electric makes a chart, giving an analysis of business conditions for the use of its officers. On this chart the opinions of seven business services, the Federal Reserve Board and four banks are digested point by point. Quotations from these services are charted, stating their views on present conditions and on the general outlook, as well as on financial conditions, the stock market, prices, production, agriculture, building, transportation, domestic trades, foreign trade and labor conditions. The attitude of the publication is recorded as favorable, undecided or pessimistic and the balance is cast. On the first of August it was shown that there were 73 optimistic opinions, 34 neutral or undecided and 6 pessimistic. One service declared "We believe the market is in a distribution period, take profits as occasion permits" while the Cleveland Trust Company prophesied, "The

result of firmer interest rates will be the termination of the long continued advance in security prices." The Federal Reserve Board reported a decrease in factory payrolls, the National Bank of Commerce of New York foresaw "some serious labor troubles looming up" while one business service foreheralded at least "a determined threat of a railroad strike" and another predicted that the automobile industry as a whole faced "the necessity of more than a seasonal reduction in output." These were the only dark spots on an otherwise clear horizon as seen by the forecasters. For several years business has been just as carefully dissected in this manner.

As the opinions are charted monthly, they may readily be checked against the actual outturn of events. In order to see whether any relation could be traced between business opinions, which are psychological, and that part of business activity which can be measured in physical volume, Edmond E. Lincoln, chief statistician for the Western Electric, decided to make an experiment. A chart was prepared, with the A. T. & T. curve of "general business" represented by production in 10 industries. Then a second curve was drawn, which indicated the excess of favorable over pessimistic opinions, divided by the total opinions appearing on the monthly conspectus. It was realized that more mathematical refinements might have been used, but it was believed that this simple method would show the trend as well as anything else.

"A study of these two curves shows that, during the past three years, there has ordinarily been a definite improvement in the opinions expressed by forecasters about two months before a similar improvement in business conditions, after a sharp recession," Mr. Lincoln noted. "On the other hand, it appears that the change in business opinions to a more pessimistic view has not ordinarily preceded a break in business activity.

"During 1923 and 1924, it was somewhat disturbing to find that the general sentiment of the forecasting services did not anticipate unfavorable developments in the business situation in time to serve as a definite guide for the average business man. Many instances could be cited to show that 'opinions' frequently seem to have been formed after the events were either in process of happening or actually had happened. However, there seems to have been a tendency toward more uniformity in opinions during recent months. For example, our business opinions curve shows that the 'peak' was reached at the end of 1924, some two or three months before the peak of business was reached early in 1925. Also, a definite decline in 'sentiment' was registered well ahead of the decline in business activity.

"It may also be noted that since April and May there has been a definite tendency toward improvement in business opinions as expressed by the various forecasting agencies. If past relationships hold, this change should be followed at any time by an actual improvement in business."

"Is there not frequently a conflict of opinion among the various services?"

"A comparative study of the opinions as analyzed has shown that at many critical times in the past there has been a wide divergence of opinion," Mr. Lincoln admitted. "Some services in fact have been decidedly bullish on certain phases of the business situation at a time when other services of equal repute have been decidedly bearish. This was particularly true in the first half of 1923, when we were enjoying our first mild boom since the hectic days of 1919-1920. Sometimes, it has appeared that the business man would follow the safest course who would take the average of all opinions and try to follow the 'happy mean' of the various views.

General forecasting is a very precarious game. It is not surprising that mistakes are occasionally made. These mistakes in the main have been due to the use of imperfect statistical methods, insufficient data on important phases of business activity, insufficient historical knowledge and too rigid adherence to certain set formulae. Looking back on the slips, it is clear that the main reason why they have gone wrong is because they have put their faith in a single theory or sign. One important service failed to forecast the decline in business that came late in 1923 and again in 1924 because it stuck to the rigid assumption that rising money rates would surely precede any slump in business activity. This belief in the 'money curve' was based upon the experience gained over a pre-war period. The effects of the Federal Reserve System, the change in the position of the United States from a debtor to a huge creditor nation, changes in the balance of trade and other considerations have perhaps made the short-time money rate a negative rather than a positive forecaster.

"Experience shows that while certain clearly defined results usually follow specific

economic causes, yet there is not necessarily any definitely measurable period of sequence. Nor is it ordinarily possible to indicate the exact degree of fluctuation which may take place above or below an estimated 'normal' degree of activity.

Industrial conditions are so complicated and the variables so numerous that it is most unsafe to pin all of one's faith to one or two 'signs.' On the contrary, it is necessary to consider all important phases of the present business situation in the light of past history in order to form a reasonable estimate of the future."

How often "normal" has figured in economic comparisons and yet how slender is the general idea as to just what "normal" means!

Here is how Mr. Lincoln expresses it:

"Briefly explained, the estimated 'normal', which is used as a base line to measure from in studying fluctuations of industrial activity, is the level toward which business tends over a period of years, when allowances have been made for the various distributing influences. For, in studying business statistics, it is necessary, in order to avoid misleading conclusions, to try to eliminate the effect of seasonal conditions, price changes —in those statistical data which include prices—and merely accidental fluctuations. It is also necessary to make allowances for natural growth in any particular industry or type of business activity. It is only after allowance is made for changes due to such conditions that it becomes possible to study the purely cyclical fluctuations, which are of primary interest to the business man in planning his future activities. In a sense the 'normal' tends to be the average of good and bad years over a reasonable period of time. No business, however, necessarily conforms in any year to this estimated 'normal', which is after all merely a statistical device to aid in making measurements and estimates. Some industries are notoriously erratic in their swings from prosperity to depression. Pig iron is a classic example."

"Are we in a boom or above 'normal'?"

"Pretty close to normal," Mr. Lincoln responded. "For the year 1925 to date, business has, all things considered, averaged fully up to the estimated 'normal,' and indications are that the tendency during the next few months should be toward moderate improvement after the let-down during the past few months. Business in 1923 averaged several per cent above 'normal' and a few per cent below 'normal' in 1924, although there was a very marked drop at the middle of the year."

"Of what material value is the average business service to the banker or to the business man, and just how accurate are its prophecies?"

"Every business man in a responsible position has always been and must always be a practical forecaster," Mr. Lincoln replied. "Unless he can read the future with sufficient accuracy that his 'hits' average a good deal better than his 'misses,' he will be a failure. Until very recently, there has not been sufficient statistical information available to enable any careful study to be made of past performance in order to help in planning the future. It is not strange, therefore, that many mistakes have been made by those who are attempting to read the future.

"Whenever a science is new there must be a good deal of experimentation, and there are bound to be some quacks. However, it is only through the intelligent and persistent efforts of banks, research organizations, and large corporations that methods of analysis of business records can be developed which will be a real help in the conduct of all industry.

There is no fool-proof system of forecasting, and it should also be clearly recognized that no forecasting agency can possibly handle the intricate problems for a particular industry. It is the function of research organizations to point the way as to method and as to the study of general conditions. It is the job of the individual corporation to find out how its own business relates to the general business movement. This can be done most effectively through the study of sales, orders, market conditions, labor turnover, and the like.

"It is, therefore, futile to condemn statistical agencies for failing to do the job which it is largely the function of the subscriber to do for himself.

"It is also interesting to note that if forecasts should be correct and generally followed by all, the very fact that the advice was heeded in time would make it impossible for the forecast to come true. For example, if all should believe that the price of pig iron would be much higher in December than at the present time and if all should accordingly cover their requirements for the next five or six months at once, the price peak would tend to come several months

earlier than would otherwise be the case, and we might see a trough instead of a peak in December.

"The main problem is to establish certain safe *maxima* and *minima* which will serve as a guide for planning operations of a business, and so enable proper action to be taken in time, always with a margin of safety."

"The old notion that statistics are merely collections of figures, and that the work of a "statistician" is merely to compile figures, has been pretty largely abandoned by progressive business concerns. As now understood, the job of the "statistician" or business "economist" is, through the analysis and interpretation of statistical data collected by others, to draw definite *conclusions* as to what administrative action should be taken at various times and what decisions should be reached with respect to the managerial policies of a corporation.

"Sound business forecasting is essential as a guide to the banker in extending credit and in analyzing the financial condition of his clients. A correct credit policy must be based on the trend of general conditions as well as on the business movement within a particular industry. The sympathetic banker is in a position to know conditions in various industries better than almost anyone else. He has the confidence of many business men and can pool the knowledge thus gained for the benefit of all those who deal with him. If bankers in general had given more careful attention to the scientific study of business movements in the period preceding 1919-20 and, if they had tried to look ahead a little further by using as their guide the basis of past analyzed and classified experience, it would no doubt have been possible to prevent many of the huge losses which industry suffered in the depression of 1921."

"Of what value are these services in indicating the trend of stocks and bonds? Would it be reasonably safe to follow their advice in buying and selling?"

"There is no possible way I know to measure definitely the percentage of accuracy of forecasting services, because they deal so much in generalities," he responded. "Nearly always, some allowance must be made for the contingencies in what they say. If their advice were followed, as pointed out earlier, the very thing which they forecast could not develop, so it is hardly fair to try to measure minutely the accuracy of these services. One of the most difficult movements to forecast is that of the stock market, particularly the amplitude of the swings. It is comparatively easy to know when the low point is reached and when it is a safe time to buy from an investment point of view. The better forecasting services are usually pretty good in spotting the high and low points of the bond market, for this is based primarily on their study of the trend in interest rates. In the stock market, allowance must be made for psychological influences and for the effect of tax levies and other conditions. It is far easier to forecast with reasonable accuracy the swings in the bond market than it is the swings in stock movements."

The part that statistics plays in the operations of big business apparently is growing year by year, as ways are found to put figures to practical purposes. The United States government has to estimate its income two years in advance. The Western Electric and other large organizations, estimate their sales several years ahead, revising the estimates every year or more frequently. Indeed, the electric company has monthly, quarterly, annual and five year budgets.

Mr. Lincoln explained that it is possible through careful statistical analysis to relate their sales and orders to the general business movement in such a manner that the future can be forecasted with a good deal of confidence, and extraordinarily close predictions of sales volume can be made. In helping to prepare budgets and check performance it is also necessary for the general statistical department to estimate the price of all important commodities five years in advance.

This naturally suggested the question: "Well, what may be expected of prices in 1931?"

"We probably will continue to have not far from the present average of prices during the next four or five years," Mr. Lincoln replied. "Thereafter, the tendency probably will be downward. With increased skill in management and science in industry, the probabilities are that ways will be found to reduce prices. Then, too, keener competition both at home and abroad must be reckoned with."

Trust Department Earnings

By W. J. KIEFERDORF
Vice-President, Bank of Italy, San Francisco

How They May Be Increased During the First Years of Operation. The First Place to Sell the Trust Services Is In the Bank Itself. Depositors the Principal Source of New Business. The Best Business Getter Is Efficient Service. Good Directors an Aid.

IT is no small task to create and develop a trust department. Only those who have struggled in initiating and building up a trust department can really know the disappointments and difficulties of the task; and I think it has been the experience of most pioneers in our business that years of patient struggle are inevitably required before success is assured. By the word "success" I mean the condition of a department when its gross earnings exceed by a comfortable margin its gross expenses; when it contributes its full share of the dividend requirements of the bank, based upon the capital allotted to it; and when in addition thereto, it contributes a goodly amount to the surplus and undivided profits account.

In a few institutions trust departments are still regarded as feeders for the commercial and savings departments and are kept in this condition of servitude by the management of the bank because of a false idea of the scope and real purpose of a corporate fiduciary's mission. In a few other institutions, it is often merely a convenient depository for such problems as defy the wits of the other departments of the bank.

Happily this condition is becoming less common, and with the increase in earnings and with the spread of education, particularly within the four walls of the bank, trust departments everywhere will take their rightful place at least upon the basis of equality and importance with the commercial and savings departments.

Income in the Beginning

IN the early years of operation no legitimate source of immediate profit can be overlooked. Immediate revenue is what is required.

Acceptance fees in living trusts; administration fees collected upon such trusts; fees for preparing income tax returns when this service is performed; escrow fees upon so-called escrows handled in the trust department; fees for drawing documents required in escrows when the local bar association interposes no objection; fees for drawing documents used by other departments of the bank; interest on accounts of the trust department that can be legitimately taken—all of these sources of immediate revenue must be especially fostered and encouraged to meet the expenses of operation pending the maturity of wills.

In most of our California banks escrows are handled in a division of the trust department, and adequate fees can be obtained. In banks where escrows were handled prior to the addition of a trust department, the collection of an adequate fee may be difficult because of the fact that such escrow service was considered merely supplementary to the general service of the bank; but if the rate book is handy and the fee be quoted therefrom in the presence of the customer (presuming, of course, that all banks in the community have adopted the same schedule) there will be little difficulty in collecting a reasonable fee irrespective of the size of the customer's bank balance or his personal friendship with the executive officers of the bank.

The drawing of inter-departmental documents is another source of immediate income, and it presupposes close cooperation between the other departments of the bank and the trust department. Unless there be objection from the local bar association, mortgages and deeds of trust to secure loans, for instance, may be prepared by the trust department and the fee collected by the loan department from the borrower and credited to trust department earnings.

Court Trusts Profitable

WHILE I am not unmindful of the fact that profitable trust business and geographical situation are, in a sense, co-related, and that in some centers of population greater remuneration is derived from living trusts and safekeeping trusts and agencies, yet it is my belief that the more profitable business is that of administering what our California Bank Act calls "court trusts" as distinguished from "private trusts"; that is to say, trusts in which the bank acts as executor or administrator under wills or by court appointment, excepting, of course, trusteeships under corporate bond issues.

In court trusts, when the estate of a decedent is distributed and you have received your fee as fixed by law, your responsibility ceases. In personal trusts, your duties are perennial. Often the trustor is over-sensitive about his trust estate, and then, though you collect the full fee that your schedule allows, you are actually handling the trust at a loss, because such business means frequent and lengthy consultations, which result generally in the substitution of securities or the elimination or sale of others, entailing no little research and extra bookkeeping. I am not maintaining that living trusts are not desirable nor profitable, but I do maintain that executorships are more desirable in the early operation of a trust department. I base this statement, however, upon our own experience.

If you ask me, therefore, what the slogan of success for any trust department is, I should say, "Wills and more Wills." The campaign for wills should begin on the day that the department store opens it doors for business, and each succeeding month should show an increasing number of new wills deposited. Only when the vaults are fairly filled with the wills of those who appreciate the advantages of a corporate executor can the trust officer relax with some degree of complacency and feel that the potentialities created by patient and persistent solicitation are about to bear fruit, particularly if time has already run against them.

Volume Without Profit

IN the early stages of the trust business, the temptation to create volume without taking costs into account is very great, and before the trust officer is aware the books are often laden with unremunerative business that declines to look elsewhere for a happier home. The greatest protection against volume at the expense of profit is strict adherence to the schedule of fees, and to the rules of the association to adhere steadfastly to a reasonable fee, as set forth in the rate book. Executive officers must also be supplied with the fee book and must realize the necessity of referring as little gratuitous business to the trust department as possible. The new business department, too, must be warned against extravagant promises of service and must likewise be familiar with the schedule of fees.

But success cannot be attained unless at the outset a program for the development of a trust department has been carefully planned. No haphazard, hit-or-miss policy will succeed.

In any scheme of development two fundamental notions must not be lost sight of; namely, that the field for trust business lies largely within your own institution, and that your service, if it be full, efficient, aggressive and sincere will ultimately be your best business-getter.

Where to Begin

THE first effort must be to sell the trust idea to your bank. This, strangely enough, is often quite an undertaking in a large institution. Sell it first to officers and members of the bank's staff, then to directors, to stockholders and to depositors before attempting to sell it to others. The

(*Continued on page* 172)

The First National Livestock Loan Corporation Is Set Up

BY REUBEN A. LEWIS, JR,

Pacific National Agricultural Credit Corporation Is Organized to Operate in the West. Designed to Give Credit Needed by Livestock Raisers. Was Part of Rural Credits Act. National Banks May Subscribe for Stock. Patterned after National Banks.

THE first National Agricultural Credits Corporation has been granted a Federal charter by the Comptroller of the Currency. This act brings into being the first livestock loan corporation that will operate under a Federal franchise and doubtless foreshadows the issuance of a new kind of securities. The creation of this corporation has the significance of welding one of the last links in the chain of rural credits now extended under the supervision of the United States.

The far West gets credit for forming the first of these agencies, which were authorized in the hope that better credit facilities might be extended through them to the raisers of livestock. Late in July, Comptroller of the Currency McIntosh announced that the Pacific National Agricultural Credit Corporation with a capitalization of $500,000, had been granted Charter Number 1, and that it proposed to operate in California, Arizona, Nevada, Oregon, Utah, Idaho and New Mexico. The head of the new enterprise is T. H. Ramsay, president of the Red Bluff National Bank, and executive vice-president of the California Cattle Men's Association.

Can Issue Three-Year Collateral Trust Debentures

WHILE the corporations are endowed under the law with many powers and an elaborate set of regulations to be drawn by the Comptroller to govern their operations, there are three significant features in the statute that provided for their creation. The corporations are empowered to issue collateral trust notes or debentures, that may have a maturity as long as three years, to the extent of ten times their paid-in and unimpaired capital and surplus. The twelve Intermediate Credit Banks have the right to buy these securities and may also rediscount the paper of these federally chartered corporations, while the member banks of the Federal Reserve System are empowered to subscribe one-tenth of their capital and surplus to the stock of these livestock loan corporations. These are the only corporations in which a national bank may own stock.

The financing of the livestock industry has been one of the problems in the scheme of rural credits, because the raisers must have loans that run over a period of two or three years to harmonize with the turnover. The extension of credit for such a long time does not fit in well with the nature of a commercial bank's operations. The Federal Reserve banks are forbidden to rediscount paper, based on livestock, for a period of longer than nine months, so if a member bank should make a loan for a long time, it would be lacking in rediscount facilities.

The act setting up the intermediate credit banks grew out of the investigation made by the Joint Congressional Commission of Agricultural inquiry, which declared that credits for the farmers and livestock raisers were inadequate because there was no machinery for extending intermediate credits running from six months to three years. In an effort to fill the gap between the short and long time credits furnished by the existing agencies, Congress passed the rural credits act. It created a chain of twelve intermediate credit banks and empowered them to make loans and to discount paper from six months to three years. By this stroke, it was thought the needs of the "dirt farmer" would be met. The National Agricultural Credits Corporations were proposed as a means of providing the livestock raisers with credits that would permit the raising, breeding, fattening and marketing of cattle. The cattle men went to Washington, held conferences with the administration leaders and told them that the authorization of these federally chartered livestock loan corporations—with the proposed enlargement of the Reserve banks discount powers—would solve their problems. It was pointed out that these corporations could operate in several states, could issue debentures to raise funds and would be doubly fortified by having a rediscount tie-up with the Federal Reserve banks.

Were Expected to Play Large Part in Financing

IT was believed that these corporations would play such a large part in the scheme of rural credits that Secretary of the Treasury Mellon and other administration leaders opposed the establishment of the Intermediate Credit Banks, on the ground that they would set up an independent rediscount system for agriculture. They insisted that, if the Federal Reserve Act were amended to make agricultural paper, running nine months eligible for rediscount the needs of the farmers for credits would be satisfied and that if the setting up of the proposed Federal livestock loan corporations, empowered to issue debentures running for a term of three years, were authorized, the livestock financing problem would be solved.

However, Senator Lenroot of Wisconsin and his supporters insisted that the intermediate credit banks should be set up in addition and this view prevailed. Before Congress rushed the bills through during the waning hours of the sixty-seventh session, all of the features in the rural credits scheme, which had been framed in a number of independent measures in their earlier stages, were combined into a single measure. This required a redrafting and a revision in a very short time. Finally the whole scheme was whipped into shape and passed both the Senate and the House. It was not until weeks later that a joker was found that made that part of the law designed to aid the livestock raisers a dead letter.

It was the intention of the framers to give the National Agricultural Credit Corporation a rediscount tie-up with the Federal Reserve banks and the Federal Intermediate Credit Banks, so that they could turn to them for aid in financing the requirements of the livestock industry. But, when a critical examination was made of the language in the law, it was found that while the Federal Intermediate Credit Banks were clothed with the power to discount any obligations issued by a livestock loan company organized under the laws of any state, there was no reference to livestock loan corporations organized under the laws of the United States. Tucked away in the new section that invested the Federal Reserve banks to "buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation," the law said, in the characteristic legal way, that this could be done "only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act." This innocent looking back reference nullified the livestock loan provision in the rural credits scheme for since an intermediate credit bank could not buy and sell the debentures issued by a livestock loan company, chartered under the laws of the United States, neither could the Federal Reserve banks.

Congress Cleared the Way

THIS little joker upset plans considerably.

Congress, thoughtfully, had provided for the appointment of a deputy comptroller of

currency to supervise the operations of the National Agricultural Credit Corporations. This act brought into the Comptroller's office Joseph S. McIntosh, whose services were enlisted by Comptroller Dawes to manage the new corporations when they should come into existence. But shortly afterwards the joker was discovered and so there was nothing for the new deputy to do—for there would be no advantage for any group of men to form one of these national corporations because they would be no better off than they were under a state charter. They could do even more under a state charter, because the intermediate credit banks were specifically empowered to handle the paper of the livestock loan companies, and, of course, the companies could go into the open market to sell their paper.

Nearly two years and a half elapsed from the time that the rural credits act passed Congress before the first livestock loan corporation was organized. Maybe none would ever have been set up had no Congress, at the last session, cleared the way by making a very slight amendment to the law, inserting the provision that the obligations of a livestock loan company organized under the laws of the United States might be purchased and discounted by the intermediate credit banks.

Even with the creation of more of these corporations, all of the credit facilities provided for in the Rural Credits act will not be in force. It was stipulated that National Agricultural Credit corporations, having an authorized capital stock of $1,000,000 or more might set up a rediscount corporation. This agency would not be limited in the scope of its operations to the incurring of liabilities of not more than ten times the paid in and unimpaired surplus and capital. However, Congress provided that the Comptroller of the Currency might prescribe the amount of direct and contingent indebtedness any rediscount corporation might incur, thus leaving to the national banking head the duty of holding the operations within safe bounds.

It was contemplated that it would do more than merely handle the rediscounts of the credit corporations. Congress empowered the rediscount corporation to rediscount for banks and trust companies that were members of the Federal Reserve System, and authorized it to discount notes, drafts and bills of exchange issued by the agricultural cooperative associations, against warehouse receipts on readily marketable farm products.

While the rediscount corporation would have this wider range of activity, it was not anticipated that a great number of these agencies would be launched. However, should a number of the credit corporations be organized, the creation of a rediscount corporation would be a logical step. The law permits any credit corporation to subscribe not more than 20 per cent of its capital and surplus for the purchase of stock in the rediscount corporation.

Follow National Bank Pattern

THE National Agricultural Credit Corporations are patterned after the national banks in a number of respects. Both are to be supervised by the Comptroller of the Currency. The granting of charters rests within the discretion of the Comptroller and it is his policy to investigate all applications to ascertain that there is a need for such a corporation in the territory covered and that the men fostering the enterprise are reliable and of high standing.

The interest rates that a credit corporation may charge are subject to the same restriction as to those of a national bank, it being permitted to exact the rates allowed by the laws of the state in which it is located.

At this writing, the organizers of the first credit corporation have not indicated just how large their operations will be. Under the law, it is authorized to incur liabilities that are ten times its paid-in capital, and the organic act provides for the increasing of the capital.

Naturally, it is anticipated that the corporation will take advantage of its opportunity to issue collateral trust debentures under its Federal charter, for by this means, it can obtain funds to make further loans to livestock raisers and farmers. The securities are not tax-exempt, however, and the government assumes no liability, direct or indirect, for any of its obligations.

Trust Earnings

(*Continued from page* 169)

field within your own institution is more than ample for your purposes.

To sell the idea to your officers and other employes and to make them helpful, you must lay the necessary foundation. This can be done by forming classes and conducting them at convenient hours. Talks should be made by the trust officer or assistant trust officers and should be copiously illustrated by specimen copies of documents that are in daily use. Nothing dispels mystery so completely as subjecting the mysterious object to the limelight. Specimen copies of private trust agreements, specimens of declarations of trust covering cash deposits, securities, real estate, life insurance, bond issues should all be shown and explained and handled by the members of the class. In some of my talks I have shown my life insurance trust agreement and explained how I have provided for my dependents, if I should predecease them. Such a disclosure has the added virtue of indicating that I am practicing what I preach. Sample copies of escrow agreements, preferably the more involved agreements, should be explained in detail. The justice of an adequate escrow fee becomes quickly apparent when the responsibility that a bank has assumed as the escrow holder is demonstrated.

The accounting system of the trust department, too, should be thoroughly demonstrated, so that the officers and other members of the bank's staff may realize that trust accounting is of a much higher order than ordinary bank accounting.

Talk Wills

WILLS should be the burden of most talks; specimen copies of wills that can be taken from public sources or that might be in course of probate can legitimately be used as illustrations. Special clauses, such as trust clauses, waivers of community interest, disinheritance clauses, spendthrift clauses and special provisions for payment of taxes, will hold the interest of hearers.

The course of lectures should conclude by obtaining the wills of all of the members of the class—your activity in this respect should not cease until you have obtained the will of every member of the institution, from the president down to the humblest employe. Personal experience in making and signing a will is the most effective object lesson and demonstrates most clearly to an employe what a will is and how it should be executed. Having gone through the process himself, he can speak familiarly and with some degree of assurance to an inquiring patron. In fact, I feel so strongly upon the subject of obtaining the wills of employes that I would insist that every new employe's application for a position in the bank when accepted should be accompanied by his will, naming the bank executor therein, provided, naturally, he is qualified under the law to make a will.

The staff of employes, having been informed of the elements of trust service and of the conveniences of the department, will refer many "leads" to the trust department which often develop into extremely lucrative trust business. The impetus that the department will receive because of this cooperation will be astounding. On the other hand, where no educated personnel exists, prospects come and go like the ebb and flow of a useless tide.

All through the course of lectures reference should be made to the necessity of obtaining an adequate fee by explaining that the department depends for its existence upon a fair return for service rendered. It should be made clear, too, that court trust fees are fixed by law and that a trust company, with all of its safeguards, does not receive any greater remuneration for administering the estate of a deceased person than an individual executor or administrator.

Directors a Powerful Aid

THE directors should be the next to fall into line. Besides being generally men of wealth themselves and having estates that some day may be a source of profit to the bank, they can attract most desirable business. Naming their bank executor of their wills is evidence of complete confidence in the institution, of which they are the responsible managers. How infectious is the statement of one director to another, "Well, I have made my will and named

our bank as executor, and I have filed it in our trust department." On the other hand, how discouraging it must be to the trust officer to find, when the will of a deceased director is opened, that some one other than the bank is named therein. How many desirable prospects are lost because of this unfortunate dereliction of duty.

In a bank doing a departmental business moreover, a considerable part of the capital is allotted to the trust department—in California the maximum requirement is $600,000—and it is the duty of directors to endeavor to increase the earnings of this part of the bank's capital.

If the trust officer has the good fortune to be a director of the bank, he has many opportunities to address the meetings of directors on behalf of his department. There is no better means of stimulating interest in the trust department than to take advantage of the opportunity of informing the directors from time to time of the intricacies as well as the benefits of trust business.

Advisory board members of branches of banks that do a branch banking business can influence a great amount of desirable business, especially in the rural districts. The contacts that advisory board members establish from time to time are productive of most encouraging results.

Stockholders are excellent prospects, particularly when the stock is widely distributed, and appeals can be made to them upon personal grounds. Dividend time is most opportune to solicit business through stockholders; and the growing tendency to pay dividends quarterly, as is the practice of some banks, enables the trust department, at least quarterly, to make its strongest appeal.

The Principal Source

DEPOSITORS, being the most numerous, constitute the chief source of trust business. We have had excellent results from well-worded letters, setting forth the advantages and superiority of a corporate executor. Mailing lists should be prepared with extreme care and be given minute attention and should be consistently revised. These lists may be made up as follows:

Savings depositors who carry their main accounts at your bank and whose balances are in excess of $2,000 should be consistently circularized.

Safe deposit patrons, especially the renters of the larger boxes, are excellent prospects for living trusts, as well as for wills.

Depositors in the commercial department can easily be circularized in banks where monthly statements are rendered.

Borrowers in the savings and commercial departments are also good prospects for trust business.

Buyers of foreign exchange and of travelers credits—those who are about to travel—are frequently sent to us by our foreign exchange tellers to arrange for the care of their securities and other property during their absence, and we are generally successful in arranging a living trust or an agency, and almost invariably succeed in getting their wills.

Special lists of professional men and women should be painstakingly prepared and contact effected by a direct-by-mail solicitation, followed up by a personal call when circumstances and conditions warrant.

Cultivate the Attorneys

OF particular value and importance is a **list** of attorney-patrons of the bank. Every letter addressed to an attorney advertising trust service should contain the assurance that attorneys' rights will be protected insofar as they affect their clients, and that when he names a bank as executor in wills he will be retained when such wills mature and are admitted to probate. In fact, attorneys who for the first time represent a bank when it acts as executor or administrator or trustee marvel at the service and efficiency of a corporate fiduciary. Such service is doing much toward removing the prejudices that have been engendered among the legal fraternity by false propaganda; and it is rapidly cementing a close friendship that is fast following as a result of cooperation and mutual understanding. We should at all times endeavor to demonstrate to the members of the bar that our attitude toward the legal profession is one of cooperation and helpfulness. In cases of the maturity of a will where the depositor has never used the services of an attorney, or where the attorney who drew the will is not available, the bank is in a position to distribute business on a basis of reciprocity.

Much has been said about the efficiency of personal solicitation. I am not so sure

of the propriety of this method of obtaining trust business. I do not believe that it is strictly in keeping with the ideals and ethics of our profession, at least insofar as wills are concerned. Unless it is of a high order and carefully restricted, and unless it is undertaken by well-informed representatives, it is likely, in my opinion, to result in cheapening our service and our standing. I know of nothing more repugnant and undignified than indiscriminate personal solicitation of wills.

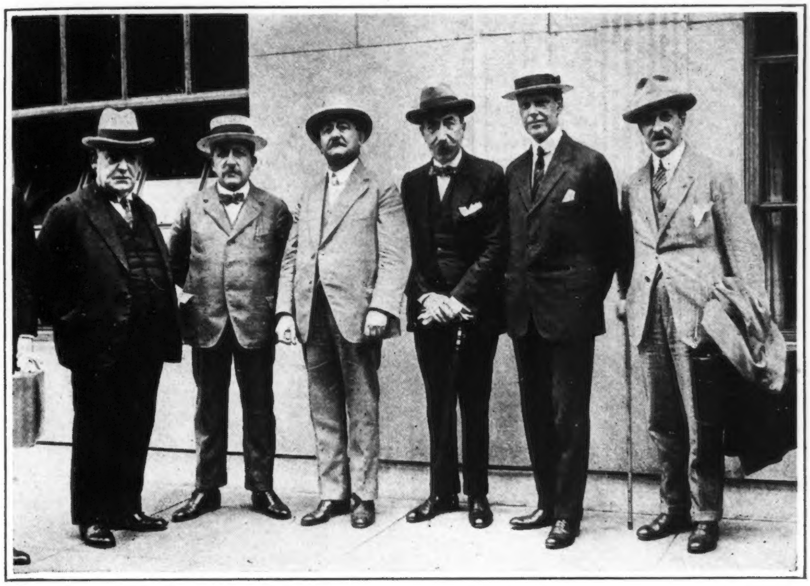
Service Gets Business

AFTER you have sold your service to your officers and to your staff, and after you have successfully launched out on your program of developing your trust department, there remains the most important factor of all—the character of your service. There is no better business-getter than efficient service. Newspapers advertising, lectures before public gatherings and clubs and schools, attractive booklets, direct-by-mail solicitation and personal solicitation—all fail unless backed up by an enlightened bank personnel and a completely equipped trust department that is capable of giving service.

We all know that nine out of every ten persons have practically no understanding of trust business; and it behooves us, therefore, to lose no time to acquaint our officers, our directors, our stockholders and the staff of the bank, generally, with the conveniences, the safeguards, the broad and beneficent scope of our service, so that the entire personnel of the bank may constitute itself not only an educational medium for disseminating trust information, but also an active sales force for its development.

Do not be discouraged after you have put the scheme in operation which I have suggested, if one of your respected depositors should casually walk in some day and should ask whether the bank has a trust department, and whether the bank can act as executor of his will or as trustee for his minor children in the event of his death. These things happen sometimes.

When you have thus built up around you an enthusiastic and enlightened bank personnel; when your directors to a man have learned to value your service and are willing to assist you; when the departments of your own institution will pay you through departmental credits for the service for which they would be obliged to pay in dollars and cents if they sought such service elsewhere; when you have given your stockholders and your depositors the highest type of service; when you have learned not only to accept business, but also to reject it; when you seek remunerative business and keep your gratuitous service down to a fair minimum; when you realize that volume unless remunerative is disastrous; and when, with all, you are not only earning your proportion of the dividend required of your capital, but are adding your share to the surplus and undivided profits account—then you will have not only succeeded in placing your department upon a sound basis, but you will have created in the community a real power for good.



Settlement of the Belgian Debt—Left to right: Emile Francqui, vice-governor of the Societe Generale de Belgique; former Premier Theunis; Felician Cattier; Baron De Cartier, the Ambassador from Belgium to the United States; William Phillips, the American Ambassador to Belgium; one of the Belgium secretarial staff

Trust Companies' Conference

THE methods by which trust companies and trust departments of banks in the western states are making notable strides were reviewed by bankers from the eleven Pacific Coast and Rocky Mountain states at the third regional trust company conference, which was held in Seattle on August 4 and 5, under the auspices of the Trust Company Division of the American Bankers Association.

While the conferees covered the broad principles of operation, they dealt particularly with the special problems of the west. The outstanding need of trust companies on the Pacific Coast, L. H. Roseberry, vice-president of the Security Trust & Savings Bank of Los Angeles, declared after giving an extensive survey of the trust company development in the western states, is for a more scientific system of charges for the services performed. In discussing the possibilities of profit that lie in this direction, Mr. Roseberry revealed that the trust department in the bank of which he is an officer had shown a greater return for a recent period than any other department. Francis H. Sisson, vice-president of the Guaranty Trust Company and vice-president of the Trust Company Division, who presided over the sessions, assured the delegates that the likelihood of substantial profits growing out of trust services was national in scope. He said that the president of the Guaranty Trust Company was so impressed with the possibilities that he had directed that the whole general fund set aside by this institution for promoting future development be spent in bringing trust services to the attention of the outside world.

Means that trust departments may employ to increase their earnings during the first years of operation were suggested by W. J. Kieferdorf, vice-president of the Bank of Italy of San Francisco; while R. O. Kaufman, vice-president of the Union Bank & Trust Company of Helena, Mont., discussed the economic value of trusts and D. W. Holgate, trust officer of the United States National Bank of Portland, outlined the most approved course of selecting investments for the moderate size trusts.

Recognition of the part that advertising plays in the extension of trust services was given by an interesting open forum discussion of the most effective types of advertising. While there was a variance of opinion as to what kind of effort produced the most results, the conference was agreed that all forms of advertising helped in varying degrees. Mr. Sisson expressed the opinion that banks and trust companies should not be hesitant in setting forth their services in a direct manner as they might well seek to sell them rather than be content with merely offering them.

A series of addresses was made by well-known bankers in the special fields that enter prominently into the operations of the modern trust department. B. L. Smith, trust officer of the California Trust Company, of Los Angeles, discussed the real estate sub-division trusts. Harold E. Fraser, vice-president of the Union Trust Company of Spokane, reviewed the various features that a trust company must watch in the safe and efficient management of real property for estates and trusts. George T. Peterson, secretary of the Bankers Trust Company of Salt Lake City, discussed the problems that arise in the management of financially involved business concerns through receiverships and assignments. A. L. Grutze, secretary of the Title & Trust Company, Portland, reviewed the duties and responsibilities that devolve upon the trustee under corporate bond issues during the life of the issue and in case of default. R. M. Sims, vice-president of the Mercantile Trust Company of San Francisco, presented the various angles that develop when a bank acts as a registrar and trust agent.

In order to qualify as a good trust officer, there is perhaps a greater need for a high order of ability and experience than possibly in any other branch of business, Leroy A. Mershon, Secretary, Trust Company Division, said, in discussing the training of trust men. At the conclusion of the conference President Sisson complimented the westerners on the well conceived program and the high order of the papers read and the ensuing discussions.

Cooperatives

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are of great assistance in facilitating the business.

In cases where arrangements can be made with the Intermediate Credit Bank to take over such loans as an association feels it will be necessary for it to have at the end of a receiving season, or that may be necessary to carry for a longer period than that which the commercial banks may desire, it is well to have a commitment in advance from the Intermediate Credit Bank as to its willingness to make such loans. If this is done the commercial banks will more freely grant the temporary credit needed because it knows it is not dependent upon the sale of the commodity for the payment of its loan.

We have not yet progressed sufficiently in the cooperative marketing of our products for bankers to have that feeling of confidence which they have in the methods to which they are accustomed.

The feeling that the commodity will be unduly held for a high market, etc., makes them hesitate. Therefore, the obligations of the Intermediate Credit Banks to take over these loans gives the banker a feeling of confidence.

Our experience is that the loans of cooperatives, properly margined and conformable with banking practice, have received the cordial support of the best banks in the United States.

Farm Industrialization

"IT is now evident that the symptoms of distress which have been prominent first in one and then in the other agricultural belt, are not all due to the price disruptions and other incidents of post-war adjustment," is the view of a writer in the Chicago *Tribune*.

"Farming has been undergoing a more rapid industrialization than in preceding years. The whole structure of the industry is being altered at a greater rate than manufacturing. Country life has been changing more than city life.

"In all such periods of rapid change there are many who fail to keep pace, and their misfortunes, added to the general distress caused by the price slumps, have intensified the rural situation and delayed recovery. Even in the areas where price recoveries have been so marked, as in the wheat and cotton belts, the restored purchasing power of the farmer has been to a very great degree devoted to the purchase of capital goods in order to reequip the farm plant to meet the new day.

"Howard Moorhouse has stated that the increase of the farmers' outlay for automobiles and commercial feeds in the last five years has resulted in those two items alone taking from 16 to 24 per cent of the farmer's cash income. Before the war the two items accounted for the expenditure of less than 13 per cent of his income.

"The farm outlay for automobiles has increased from $50,000,000 to over $1,000,000,000 per year since 1913. About half the outlay for automobiles is figured as a business expenditure, so that there has been an increase of $450,000,000 per year in this form of capital expenditure by the farmer.

"As a result of the increased capital employed in the business and the increase of taxes the average fixed charges upon agriculture now amount to 17 per cent of the cash income of the business, against 10 per cent in pre-war days. Despite this enforced greater outlay for capital goods, the purchasing capacity of the farmer for consumption goods is now practically equal to his pre-war ability to buy them.

"In agriculture, as in every other industry, one of the first results of the employment of increased capital is a squeezing out process, and we have seen evidences of it in many regions.

"How far the process of industrializing agriculture has yet to go is indicated to some extent by the wide variation in the use of animal and mechanical power in farming. Nebraska, with a crop value of $910 per farm worker, uses 4.7 horse power per man. For New York the figures are $250 and 1.7 horse power; for Alabama $112 and .8 horse power.

"Money to Loan"—Few Takers

By CHARLES MOREAU HARGER

Country Banks in Middle West Report that Producers Do Not Seemingly Want to Borrow Millions Waiting for Them. Banks Buy Commercial Paper. Farmers Out of Debt and Want to Stay Out. Hunger for Large Land Holdings Is Passing.

"IN this town's banks," said a banker of an eastern Kansas city with 11,000 population, "is one million dollars available to the producers of this county—and nobody wants it. We would be glad to see some of our farmers and stockmen come in and ask for loans—but they are not coming. Oh yes, we make loans—a hundred here, three or four hundred there, but that does not pay dividends."

Then up farther west was the manager of a little rural bank deploring his condition. "I have been in the banking business thirty years," he mourned, "and this is the first time in all that experience that in July I bought commercial short term paper because there was no demand for the money on hand. I took $10,000 of it—what do you think of that, right in harvest, too?"

Eighteen months ago the country banks of the interior were rediscounting paper, asking help from the War Finance Corporation, struggling to carry on, with every possible dollar sought by their customers. Bankers took these customers into the back room and argued with them, showing them that they ought to get along with less, stressing the essential loan and trying to hold the note case to its lowest attainable proportions.

The Changed Conditions

WHAT has happened? To be sure there was a glorious wheat crop in 1924 but that affected only the wheat belt. There it liquidated a vast amount of paper and it placed the country banks on a stronger basis. But the corn belt did not fare so well. The crop was far below average and in the live stock sections feeders were compelled to buy high priced corn, making a strain on their credit.

And this year's wheat crop is no marvel—it is some 180,000,000 bushels less than last year. Kansas has only half its 1924 crop. The four states, Nebraska, Missouri, Kansas and Oklahoma, have more than 100,000,000 bushels less wheat than in 1924. Even at the present price level, fifty cents a bushel more than the larger part of last year's crop brought, does not entirely account for the change.

The interior banker knows all this. He has figured the income of his county and state. He knows that on the whole, with the necessity of living through the year, the paying of debts and the planting of new crops, the producer has not yet attained a state of great profit making. Indeed statistics show that he has only about 4 per cent on his investment, but slightly larger profit in percentage than last year. Why then is he not asking his banker to loan him money? Why is he refusing to borrow the millions of dollars that are at his call? Why are the country bankers of the interior buying short term paper and bonds in an endeavor to maintain a dividend basis, buying as they have not done for over ten years—and probably never to the extent to which they have been carrying this process during the past six months?

Keeping Out of Debt

PARTLY it is education, emphasized by experience. The orgy of borrowing during war times and from 1918 to 1922 not only strained the credit of the banks but gave to the producer a burden that became serious when came the depression in the value of his output. Partial crop failures were recorded but the price drop gave the real blow to the borrower. He had incurred debts on a basis of wheat at $2.50 a bushel; he was to pay at 80 cents; he had sold hogs at $20 per 100 pounds; he paid at less than $10. He renewed his note and borrowed more. The banks hoped against hope until in the end many had to close their doors and the interior states eventually had some 500 banks in receivers' hands.

This lesson was costly. It brought loss to stockholders and to depositors. It made life a weary struggle for hundreds of bankers. But to the producer it drove home the idea that the way to success was to get out of debt and then keep out. With the revival of prices, when livestock began to climb into profit-making figures, when grains showed a profit in production, debts began to lessen. Rediscounts decreased until they were within moderate bounds. The Federal Reserve bank of the Tenth District, with headquarters at Kansas City, had in July, 1924, $17,655,000 in bills rediscounted; one year later it had slightly over $7,008,000. Over $10,000,000 had been paid off in the twelve months. The farm country was getting out of debt. As it had entered into its troubles through the gate of extravagance it was departing by the path of economy. Merchants complained that buying was done too carefully, that patrons "shopped around," that high priced goods did not sell, that hand-to-mouth buying was the only method by which they could keep their stock within businesslike limits.

Folks bought automobiles? To be sure, hundreds of thousands of them. Rare is the farm without one. But the local banks do not finance them. Either the buyer pays cash or his partial payment system is carried by the financing institutions, of which a vast number is springing up all through the farm country. Some take the buyer's note without indorsement, trusting to their agents to collect the payments—or get the car. The fact that something like 18 per cent is netted in the interest return makes it a fascinating and profitable procedure.

Buying Farm Implements

THEY bought farm implements—this year. Not until the spring of 1925 did the business recover from a four year depression. By that time the old equipment was so worn that something had to happen. Sales during the six months ending June 30 increased over 40 per cent, compared with 1924.

They did not buy oil stock and few can be found to take promotion stock even under the high pressure salesmanship that has been turned loose on the Middle West. "I am going to Florida and enter the land game," declared a disgusted salesman, who had been trying to interest Nebraska farmers in stock in what he described as a "wonderful oil field" down in Texas. "The trouble is that those who would buy haven't any money and those that have money won't bite. What's the use?"

Many a country bank failed or has been seriously embarrassed in the past because its customers tied up their credit in investments in stocks to oil, implement factories, mill and elevator companies, cooperative stores, packing houses—all promising huge dividends because they were about to overturn "big business" and seize the immense profits which promoters declared were being reaped by established firms. The farmer believed he could do business better than the business man, could run a packing house better than Armour—and put up his note to prove his faith. Then he had the note to pay. The lesson was expensive but it stuck—at least it is still sticking.

Another thing—an era of power farming is at hand. You do not see many teams hauling grain to market. Instead, trucks roll along the well made roads, doing the work in half the time. Out in the fields chug the tractors, pulling a half dozen plows where six sweaty horses used to draw two. Take Kansas. In 1915 there were 2400 tractors in the State; in 1918, 9700; in 1924, 24,000; by the end of 1925 it will be close to 30,000.

In the last quarter of a century ten per cent more people in farming in the United

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The Fate of German Bondholders

By ROBERT CROZIER LONG

By Paying $1 for Every $400 of the War Debt, Germany Proposes to Settle with the Holders of Her Securities. Ruinous for Those Who Bought before the Mark Depreciation Set In or for the "New" Holders. Estimate of Loss to Foreigners $150,000,000.

BISMARCK declared that political problems were never solved. "Were they solvable they would not be political," he observed. If the word "political" is changed to "economical", that is the best judgment on the German law of July 16, 1925 which professed to settle the fate of the native and foreign holders of 70 billions marks of bonds.

Despite the law, despite its presentation as a "definitive" settlement, the great revaluation question is still alive. It has raised unheard-of commotion and agitation among Germans, whose treatment under the law is the same as that of foreigners. Germans refuse to believe that the unsatisfactory settlement is really "definitive". They remember that the still earlier settlement proclaimed by the revaluation decree of February 14, 1924 also professed to be conclusive and irrevocable. It gave the bondholders nothing. It declared that they could not claim a cent for interest or principle until reparations are fully paid. Yet now comes a new law which makes very considerable concessions. Why, ask the bondholders, should not this law be in turn revised and improved?

The Militant Bondholders

THIS may be undue optimism. But native bondholders, who are much more militant than foreign, do not despair. They have organised a creditors' association with 2,000,000 members, which demands that the whole debts question, public and private, be settled by a national referendum. It further threatens to contest the constitutionality of the law before the courts. The Constitution of 1919 forbids uncompensated expropriation of property except by means of a constitutional amendment, passed by a two-thirds majority of the Reichstag. The July enactment was passed by an ordinary law; and it had no two-thirds majority behind it. Another newly-formed association will fight for the interests of public bondholders only. Its particular aim is to enforce the doubling of the meagre compensation granted to holders of municipal bonds.

American holders of German bonds do not need to hurry. While the law provides that all bonds must be handed in for exchange, no limitary date for the handing-in has yet been fixed. First must be issued ministerial rules for execution of the law, settling certain questions of detail; and secondly must be created a special board which will transact the actual exchange. Only after the board is constituted will the date before which bonds must be sent in be announced. The procedure will then be set out by which "old" bondholders, who acquired their bonds before July 1, 1920, are to prove that they are "old".

This is a vital question; because while the "new" bondholders who acquired bonds after that date are to get practically nothing, the "old" bondholders will get a substantial dole. The foreign bondholders' immediate interest is to see that the Berlin finance ministry fixes a term sufficiently long to enable those among them who live overseas to get in their claims in time.

What Foreigners Will Lose

WHAT have foreigners to gain or lose? This depends firstly upon whether they are "new" or "old", and secondly upon the exchange of the mark at the time of their investment. Except by neutrals and by some German-Americans there were few foreign purchases of German bonds during the war. These war-time purchasers are the heaviest losers. They bought when the mark was at its full value or little below it. Post-war bond buyers bought with marks which are much depreciated, and they will suffer less. In a good many cases, they will get back all that they invested, and even considerably more. The law of July is ruinous only for those persons who bought before the mark depreciation began and for those who, having bought later than June, 1920, are discriminated against as "new" holders.

The law differs materially from the original bill summarised in the AMERICAN BANKERS ASSOCIATION JOURNAL of May, It treats "old" bondholders better than the bill treated them; it treats "new" bondholders considerably worse. The provisions are:

1. All public bonds—federal, state, and municipal—are to be called in and exchanged for a new security called "loan redemption debt" bonds. For every 1000 marks nominal of bonds handed in, the bondholder will be given 25 reichsmarks nominal of "loan redemption bonds".

2. "Loan redemption" bonds issued to "new" bondholders—those who acquired after June 1920—will bear no interest and will not be amortised until after reparations are fully paid. The law does not guarantee that they will bear interest or be amortised even then. Reparations will not be fully paid for at least thirty years; and, taking into account the high prevailing German interest rates, actuaries calculate that the present value of 25 reichsmarks nominal of non-interest bearing "loan redemption" bonds will be some 2 marks 60 pfennigs, or about 60 cents. Sixty cents is therefore the compensation promised to the "new" holder of 1000 marks nominal ($250) of war loan, or any Prussian, Bavarian, or municipal loan.

3. If the bondholder is "old" his treatment will be very much better. At first, like the "new" holder, he will receive only 25 reichsmarks of "loan redemption" bonds in exchange for every 1000 marks nominal that he turns in. But he will get both interest and principle without waiting until reparations are paid, and he will get a substantial premium. The law, in fact, enacts that the whole sum of "loan redemption" bonds issued to "old" holders will be amortised by lot-drawing during the next thirty years; and that on amortisation the holder will receive a fourfold premium. He will receive in cash not 25 marks, but 125 marks, or 12½ per cent of his original nominal holding. Further he will get 4½ per cent simple interest between January 1, 1926 and the date of the amortisation. Should his bonds be drawn for amortisation five years hence he will receive therefor 153 marks in cash, of which 125 marks will be capital and premium and 28 marks interest. This treatment is not liberal. But it marks real progress as compared with the settlement of February 1924, which promised nothing at all.

Outlook on State and Municipal Bonds

THE treatment of Prussian, Bavarian, and other state bonds is similar. The states however are not forbidden to increase the compensation dole. They may do so. They probably will not. The treatment of municipal bonds is also in principle identical; but there are two differences. Firstly, the rate of interest is 5 per cent. Secondly, holders of municipal bonds will be allowed to plead that the debtor municipality is financially in a position to double the above standard compensation. The bondholders are allowed to appoint a trustee, who will fight the question on their behalf; and an arbitrator will be appointed by the state in which the municipality in question is situated.

Should the arbitrator decide that municipal finances are sufficiently prosperous, the municipality will be ordered to grant 50 marks of "loan redemption" bonds in exchange for every 1000 marks handed in. As this 50 marks will also carry a fourfold premium, the bondholder at date of amortisation will receive a cash payment, in addition to interest, of 250 marks, or 25 per cent of his original nominal holding.

By differentiating between "old" and "new" bondholders, the German state has

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Money to Loan

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States have increased output 40 per cent. In ten years, from 1910 to 1920, farm production increased 18 per cent, due to greater efficiency and not to increase in the number of agricultural workers.

Since 1918, when the combined harvester-thresher came along, the International Harvester Co. has sold 5500 machines in 26 counties in western Kansas, and other makers have probably sold as many. The decrease in hired labor has been great, and throughout the belt the outstanding trend now is toward scientific farm development and power extension. The possibilities of electrical pump irrigation are engrossing many.

Take a specific instance: George O'Dell, out in the wheat belt, harvested this year 550 acres of wheat at a cost of $167. He had a combined harvester that cut the grain, threshed it and filled a bin on the machine. He drove the tractor that pulled it. One hired hand with a truck drove alongside, filled the box on the motor vehicle and hurried a mile to the elevator. By the time he returned the bin was ready with another load. Five years ago it would have taken a dozen men and a half-dozen teams and the gathering of that field's yield of 11,000 bushels would have cost 10 to 12 cents a bushel to put in the elevator. That is one reason why the producer is spending less and why he is not asking for loans in harvest time.

Education in Investments

ANOTHER factor that has entered into the financial condition of the farm country is the education in investing. The Liberty Loan campaigns were based on the two elements: patriotism and the advantage of sound investing. Tens of thousands of families, entirely ignorant of what a bond looked like and considering it as a possession of the idle rich, experienced the surprising pleasure of clipping coupons and cashing them in at the bank. It was a revelation in financial operations and opened a new vision of thrift.

So the country banks have a constantly increasing number of customers, who when they get $500 or $1,000 ahead, ask the banker to buy them a bond. They take his advice usually and have been liberal buyers of foreign issues, particularly those of high interest rates. It has been a strain on the time certificate account but it has made for sounder contentment. When the government was selling its postal savings certificates this was a favorite investment. Now the bonds take the leading place. The rural customer is not an investor in stock—that is, in stocks of established standing on exchange. He sees the fluctuating market and being unfamiliar with the securities prefers something that will return a definite income. The utility preferred stocks have a wide popularity. Power and telephone companies maintain campaigns that bring their customers into the ownership list and their stocks, paying usually 7 per cent, are scattered widely. Mostly these securities are available on the weekly payment plan, appealing especially to the wage earner.

The Land Hunger Passes

TAKE the average farm owner who has a balance of say $5,000. He can take that and buy more land. But land values are not increasing materially—there is little unearned increment in sight. His boys are not eager to farm—they want to go to college and thence to the city. The rural population is less all through the farm country than ten years ago. If the farmer buys more land, it means more worry and harder labor. In early days he would have gone in debt to buy the farm adjoining him. Now he thinks it over. He can buy securities paying 6 per cent and with no taxes to pay—it is probably more than he can make from buying land. He takes the easier way, stores a bunch of nice crisp bonds in his safety deposit vault and "sits pretty." When he clips the coupons he tunes up the family car, loads into it mother and a collection of suit cases and hikes for a vacation in the mountains or back East to see the old home State.

A hard-working, well-educated farm wife sat in a real estate office the other day talking over family affairs. "We have 640 acres of land," she said, "and we are in debt nearly $40,000. For five years since we went in debt to buy the last 320 acres we have put every dollar the land earned into interest and taxes. I have clothed the children out of the egg and butter money. Now the boys want to go to college—and I know they will never come back to the farm. I want to sell all but a little place, pay our debts, put the rest of the money in bonds and have a little comfort before we die." It seems a reasonable proposition and she could not be blamed. Her position is that of many who are similarly looking to the easier way, particularly those who have fought the good fight and seek a rest.

It is conceded that the farm country was overbanked. A considerable reduction in the number of institutions has been made by liquidation and another reduction is going on in consolidation. The little town of 800 population is finding that there is not enough business for two profitable banks. Hard surfaced roads threading the interior, increasing by thousands of miles annually, are taking trade and banking affiliations to the larger towns. The rural bank seems to be less necessary than in the days of horses and mud highways. When profits cannot be made the banker seeks a way out—and usually it is by uniting with the other small bank across the street.

Borrowers Still Lacking

LITTLE indication exists of a change in the condition or a lessening of the abundance of money to loan, with borrowers lacking.

To be sure, a marvelous burst of prosperity for the farm with great profits in crop-raising would excite a spirit of expansion. But such situation is not in sight even though farming is showing a better prosperity than for the past four years. It is attaining a soundness that comes from better prices for products and a more stable

system of agriculture. More bushels per acre, more economical management and more careful financing all tend to give the producer a better hold on his business. He is getting his borrowed capital as cheaply as ever in his history. Many agencies are open to him for financing any project that seems to promise profits. But he has assimilated the spirit of caution and has a keen remembrance of the experiences that so sorely afflicted him during the past four years. He is not asking for credit—at least not more than the minimum with which he can carry along his business. The banker who has cleaned up the old paper is willing to accommodate—has few takers.

Billion in Highways

MORE than a billion dollars, it is estimated, will be spent in road building in the United States during 1925.

"The expenditure of so large an amount of money," observes the National Bank of Commerce, New York, in its *Monthly*, "is not without effect upon the labor and material markets of the country, while the raising of the funds has contributed to the volume of tax-free bonds absorbed by investors.

"With the coming of the automobile rural highways have assumed a new importance in the transportation facilities of the country. To meet this need roads have been graded and surfaces improved. By 1921, 13 per cent of the total rural road mileage of the country had some sort of surface dressing, as compared with 7 per cent in 1904. The proportion now must be considerably larger, as since that time surfacing has been proceeding at the rate of 35,000 to 40,000 miles per year, while during the earlier period the average rate was only 13,800 miles.

"The fact that the greater part of rural road improvement has come since the war is doubtless partly the result of the diversion to war uses of funds which might otherwise have gone earlier into road building, but to an even greater extent, perhaps, it may be ascribed to the comparatively recent realization of the nature and magnitude of the need. In 1914 there were only 1,711,339 motor vehicles registered in the United States. By 1919 the number had increased to 7,565,446, and by 1924 this figure was more than doubled, reaching 17,591,981.

"By Jan. 1, 1924, the state highway systems of the country included 260,700 miles of road. Of this total 110,600 miles were surfaced and an additional 41,200 miles were graded and drained. As compared with the total road mileage of the country, amounting at the end of 1921 to 2,941,000 miles, the figure for state highways is not large, but it must be remembered that a considerable extent of feeder and back-country roads will always remain of purely local interest and, therefore, a local responsibility.

"Indiana had in 1921 the largest percentage of its road mileage surfaced, followed by New Jersey and Ohio in the order named. As might be expected, the Plains and Rocky Mountain States in general showed the smallest proportion of their roads surfaced. Most of these states, however, make a good showing in the 1925 building program. The latest survey by the Bureau of Public Roads shows that 38 per cent of the income for rural road purposes for the country as a whole in 1921 came from bonds, 7 per cent, as aid from the Federal government, and 11 per cent from motor vehicle fees and gasoline taxes, aggregating 56 per cent from sources directly designed for the construction and maintenance of the roads or connected with their use. Of the remaining income, the greater part, 36 per cent of the total, came from general property taxes and the rest from various sources.

"At the end of 1921 twenty-one states had road bonds outstanding. In addition to these state bonds aggregating $346,000,000, there were some $877,000,000 of local bonds."

Cooperative Banking in Great Britain

BY S. TYLDESLEY

OF all the great undertakings in the United States, that of banking is perhaps least affected by the policy of amalgamations and combinations which has been an outstanding feature of American progress during the last few decades. Curiously enough, in Great Britain the very opposite is the case and practically all banks of importance are merged in the "Big Five." It is all the more remarkable, therefore, that the cooperators of Great Britain have been able to build up a bank with total resources of $155,000,000 and an annual turnover of nearly $3,000,000,000.

Britain is the home of the cooperative store. Cooperation, simply expressed, implies the pooling of the buying power of a body of people with the object of securing greater bargaining power in their demand for commodities. Such cooperative or consumers' societies exist in practically every town and village in England and Wales and their business is facilitated by a great central manufacturing and buying house which they own and control. Last year this Federal organization produced goods varying from flour and textiles to hardware, footwear and canned goods to the total value of $121,000,000, while the total sales were $364,000,000.

A bank becomes a necessity to such a movement and as early as 1873 the C. W. S. Bank formed as a separate department of the Cooperative Wholesale Society Limited. In the early days of the movement by means of this central financial institution, prosperous stores were able to help the weaker ones and those requiring capital for expansion. Early progress justified the innovation.

By intention the bank was formed only for cooperative societies and their members, but upon its direction was placed shortly after the war the responsibility of deciding whether the bank should finance movements of similar aims, having as their basis the welfare of the working classes. In part, the decision was forced upon the board by the industrial crisis of 1919 when certain banks were unwilling to increase their commitments in connection with advances to trade unions. The C. W. S. Bank was approached, the advances were made, and practically all trade union banking business is now operated through cooperative channels. Similarly, many clubs, saving institutions, and associations of a non-profit making character conduct their banking operations through the C. W. S. Bank.

The system employed is quite different from that of any other bank. Owing to the fact that general business could not be accepted under the terms of its constitution the maintenance of branches up and down the country would have been prohibitive from the standpoint of expense. Consequently, all cooperative stores and branches over 2500 in number were appointed agents, and customers all over the country paid in deposits and cashed checks at the same counter as they purchased their daily requirements of foodstuffs, and so on.

No profit is declared by the bank, but at the end of each half-year's operations, the surplus available after allocation to reserves is distributed to customers in the interest allowed or charged, which is generally higher in the case of credit accounts, and lower in the case of debit accounts, than other banks in Great Britain.

Of recent years closer contact has been established with cooperative financial institutions abroad and credits variously estimated as totalling from $7,500,000 to $10,000,000 have been allowed to the central cooperative organizations of Germany, Russia, the Ukraine, Poland, Esthonia, Latvia, Lithuania, and Canada.

Certain of the cooperative wheat pools of Australia are also financed to a large extent from the cooperative savings of Great Britain.

German Bonds

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enormously reduced its revaluation burden. Of the 70 billion marks nominal of federal bonds outstanding, 50 billion marks are estimated to be in "new" hands; and at the rate of 25 per 1000 the Republic will issue in exchange 1,250,000,000 marks nominal of "loan redemption" bonds. But as this new debt will be non-interest bearing and non-amortisable, the transaction will not cost the Republic a cent. Even if interest-payment is resumed thirty years hence, the present value of the 1,250,000,000 marks of "loan redemption" debt is, by the above actuarial calculation, only some 130,000,000 marks, or $32,500,000. The remaining 20 billion marks outstanding of federal debt are in "old" hands. Against these (again at 25 per 1000) will be issued 500,000,000 marks nominal of "loan redemption" bonds, which owing to the fourfold premium accruing at date of amortisation should really count as 2,500,000,000 marks. The annual cost of the amortisation and interest during the proposed thirty years' term is only 125,000,000 marks, or some $31,000,000. By this trifling annual expenditure, the German Republic will get rid of a war debt which originally totalled $25,000,000,000.

From the state viewpoint, this transaction is highly profitable. It relieves the budget of the heavy burden which is borne, as result of the war, by the United States, England, and other sound-currency countries. The main loss will fall upon such of the German bondholders as acquired their bonds when the mark stood high. The prevailing view that foreigners will lose enormous sums is exaggerated. A fair estimate of all foreign losses is $150,000,000. The loss of any individual foreigner will depend on two factors: the Bourse quotation of the bond at the time of purchase, and the exchange of the mark at the same date, the latter factor being by far the most important. The greatest losers will be those who bought when the mark stood at gold parity and who sold some time ago for practically nothing. Later buyers will lose relatively little because they paid very little for their bonds. Toward the end of 1923, enormous purchases of German bonds were made by foreigners. But the sum invested therein could not have been large, because the whole 70 billions of federal bonds outstanding had then a Bourse quotation value of only 350,000,000 gold-marks, or some $80,000,000. The United States has more than one citizen who could have purchased the whole German national debt.

The Municipal Bond Craze

THE position with regard to municipal bonds has particular interest for United States citizens. It is on the whole not unfavorable. The most active American buying of German municipals occurred in the first half of 1920. Large sums were invested. But some of the estimates—as high as $200,000,000—were undoubtedly exaggerated, or they referred to the total turn-

over in repeated purchases and sales, and not to the permanent investment. At the mark-exchange of February 1920, $200,000,000 would have purchased 25 billion marks of municipal bonds which far exceeds the total of such bonds then in existence. The practical question is: How much of the municipal bonds bought during the misguided 1920 craze are still in the then buyers' hands? In so far as they are in the then buyers' hands, the outlook is not at all bad.

Reason of this is that all buyers in the first half of 1920 count as "old" bondholders. As the mark was then badly depreciated they paid relatively little for their bonds; but they are nevertheless to get the fairly substantial dole above described. Whether any individual bondholder in this class will lose or gain can be determined by looking up Bourse quotations and dollar-exchange quotations at the date of purchase of the bonds. An American who bought Berlin municipals in February, 1920, when the dollar stood at 100 marks, paid about $8 for every 1000 marks of bonds purchased. Under the above-described scheme he will get as an "old" bondholder 25 marks, or $6¼, of "loan redemption" bonds; for which at date of amortisation he will get, in addition to interest, 125 marks or about $31, this increase being due to the fourfold premium. He will make a large profit.

If he bought in late June, 1920, when the mark-exchange stood much higher, he paid about $20 for 1000 marks of bonds. He will get the same revaluation rate, but will not lose. This treatment, which actually promises profit to considerable classes of investors, is an absurdity of the law, as the following instance shows: An American who bought on July 1, 1920, instead of on June 30, would also have paid about the same $20 per 1000 marks bonds. But as he is a "new" holder, his revaluation dole, as above shown, is only about 60 cents. The anomaly is due to the unpractical attempt to discriminate between "old" and "new" bondholders by means of fixing an arbitrary date.

Speculator or Investor?

As stated, the German outcry against the law is very strong. It is fully justified on two grounds. Firstly, there is the absurd discrimination between "old" and "new". This is not merely a material question. It is a question of principle involving wide issues of state financial policy and Bourse confidence. The bourses, the association of bankers, numerous chambers of commerce, and other representative organizations have strongly protested. Discrimination is a breach of faith. Ever since the bonds were subscribed, they were quoted on the bourses on the same level. The idea was never mooted that one war loan bond could conceivably be more valuable than another war loan bond of the same nominal value. No buyer asked, or had any reason to ask, whether he was "new" or "old", whether, to adopt the official justification, he was a "speculator" or an "investor".

All "new" buyers, according to the official doctrine, are "speculators". Each loan had only one quotation. Suddenly by a stroke of the pen the government and Reichstag decide that part of the bonds are entitled to fairly substantial revaluation and that the other part of them may be practically repudiated. This system of arbitrary discrimination shakes confidence in all German public securities. A few years hence, new loans which have been contracted in gold-marks or even in dollars may be treated in the same way, and recent buyers may be expropriated on the ground that they are "speculators".

The second objection lies in the meagerness of the revaluation as a whole. The state of German finance permits of the devotion of more than 125,000,000 marks a year to payments on account of the national debt. In the financial year 1924-25, taxation yielded 2,300,000,000 marks more than was expected; and in the first quarter of the new financial year the yield was 311,000,000 marks in excess of the yield in the corresponding quarter of last year. To other sufferers than bondholders Germany has granted liberal compensation. The Ruhr industries received 700,000,000 marks compensation for losses suffered during the French irruption. The Finance Minister, Dr. von Schlieben, daily emits jeremiads as to the terrible state of the finances. But the Reichstag challenges his figures, and believes them so little that it has heavily reduced taxation. The coal tax is gone, the turnover tax has been reduced to half, the stamp duties have also mostly been halved, the property tax has been suspended, the increment on property tax abolished, and the income tax on small incomes reduced. By the last measure alone, the republic sacrifices 500,000,000 marks a year. Yet it seriously requires the ruined bondholders to believe that 125,000,000 marks a year is the utmost it can afford upon the service of its pre-war and war debt.

The struggle for the reopening of the bonds revaluation question will continue. The German creditors' agitation is tremendously powerful. It plays a great role in election politics; and it has been encouraged by its success in forcing the Luther Cabinet to revise the expropriatory settlement of February 1924. The prospect of a second speedy revision is not very great. But the prospect of a restoration of confidence and social peace on the basis of the law of July is equally small.

Letters Which Help the Bank

By HENRY A. BURD, PH. D.
University of Washington, Seattle, Wash.

The Formal Expressions Long Customary in the Business May Well Be Superseded by Direct, Frank and Courteous Messages Which Bring About Reactions Tending to Hold New Customers and to Make it Easy for Lost Accounts to be Regained by Banks.

NOTHING can build bank business like the genuine personal interest of officers and staff; the courteous consideration of the customer or visitor by everyone in the bank, from doorman to president. The teller in his cage, the officer at his desk, the bank representative visiting the client or prospect in his office are the most vital factors in creating and maintaining that confidence which men like to repose in those to whom they intrust their money.

Letters cannot supplant personal contact, but they can supplement it, support it, and substitute for it. In their turn they must be supported by the spirit of the organization, for the best letters that might be written could not long build business for an institution that did not practice its professions. Letter assurances of safety, service and satisfaction (the banker's sibilant trilogy) can quickly be dissipated by a tactless teller or an officious officer. The bank interested in improving the quality and effectiveness of its letters must be ever vigilant in improving the character of its service lest its letters become as sounding brass and tinkling cymbal.

Expressions Which Fetter

BANK correspondence, as befits an institution famed for its conservatism, has been slow in sloughing off the formalisms which hark back to the days when correspondence was highly formal and largely legal. As banks are taking on modern merchandising methods in other directions, so they are giving to their correspondence the directness and frankness and courtesy that characterize the letters of the most progressive business firms. Some expressions typical of those which still fetter bank correspondence are cited for comment. They have been discarded by those who have given special study to the subject and are rapidly going onto the taboo list of forward looking banks.

"We wish to assure you;" "We beg to advise you."

The first expression is less direct and no more courteous than "We assure you." Why waste time and words saying you wish to do a thing you are already doing? Why "beg to advise?" It is not necessary to grovel in order to be polite or considerate.

"I am writing to inquire" is a needless expression of two obvious facts. The letter is evidence that you are writing; the inquiry or question itself indicates what you wish to know.

"Expressing for the bank our appreciation of your patronage, I remain." The participial phrase is not a complete grammatical sentence; such a conclusion weakens the letter in giving it the impression of petering out or tapering off to the signature. More direct and forceful, and no less pleasing is the complete sentence which closes the letter with firmness and vigor: "Please accept my expression of the bank's appreciation of your patronage."

The formal opening and close of the letter are frequently criticized as meaningless. Military correspondence has dispensed with them; business correspondence tried it and failed. They are formal but they need not be meaningless. It is not necessary to begin every letter with "Dear Sir" and end it with "Yours truly." At least a measure of personal quality is present in the salutation which contains the man's name. The complimentary close can be made to reflect the timbre of the letter itself, and yet in no wise smack of the smart sales letter. "Cordially yours" might well conclude the letter welcoming a new customer; sincerity in the expression of good wishes to a newcomer would be consistently shown in "Yours sincerly," and fidelity to the trust involved in most financial transactions is indicated by "Faithfully yours."

The Mythical Average Reader

THIS article will be limited to an analysis of "outside" correspondence between the bank and the public—letters acknowledging the opening or closing of accounts, soliciting new business, etc.—as distinguished from "inside" or inter-bank correspondence. Such letters are often referred to as "form letters," as though that were a condemnation of them. It need not be if the letter is properly prepared. If the author consciously writes a "form letter" he is apt to have in mind the mythical, nonexistent "average" reader. Shooting at the whole flock he misses all the birds. But if the form letter is considered as "a standardized way of saying a standardized thing" most banks can find a good use for it. Let the correspondent who has to meet a given situation repeatedly, dictate the best personal letters he can, putting into each the spirit of the bank as reflected through his own personality, then let him by careful selection of sentences and paragraphs from these letters construct the best letter he can build. He will have a personal letter which can be used as a form. Whether it is mimeographed, multigraphed, printed, or individually typed, it will come to each recipient as a personal message. Unusual cases will require specific treatment, and the intelligent correspondent will recognize them when they arise. Even then he may advantageously lift sentences or paragraphs from his "form" letter.

To follow up the personal contact gained when an account is opened, most banks send a letter of acknowledgment and appreciation signed by the president or some officer other than the one who accepted the account. This makes a new contact with the customer and suggests his value to the bank. The contents of these letters from a number of representative banks are summarized in the following table. The percentage figures indicate the proportion of letters containing each thought.

Thanks or appreciation	100%
Assurance of service	100%
Selling other departments	80%
Request for criticism and suggestions	80%
Offer of free counsel and advice	75%
Request that customer bring in friends	40%

Avoid the Catalog Effect

SUCH a letter ought explicity to express appreciation of the new account, and this is the first thing it should do. The opening sentence is therefore of supreme importance. It should be personal and direct and exude friendliness. Contrast the cold formality of, "We note with pleasure that you recently opened an account with our bank," with the warm personality of, "I am glad to welcome you into the Fidelity Family"; or the studied distance of "The officers of this bank are much pleased to note that you have opened an account with us," with the directness of "Thanks for your account."

It is entirely proper to suggest that the bank is a service institution and to urge the new patron to utilize its facilities to the utmost. There are many services of which he may not be fully cognizant that naturally go with the commercial department or the savings department or any other department in which he may be opening an account. These may with propriety be brought to his attention and it may be suggested that the bank will gladly be of service in any of its other departments. But this is not quite the same as an attempt to "sell" him one or more of the other departments of the bank. To list all these departments gives the letter a catalog-like effect and detracts from its personal quality. To undertake a complete description of the advantages of one or more of them crowds the letter and makes it an obvious selling letter.

Advocates of the sales type of acknowledgment argue that one should strike while the iron is hot; that the new customer is the best prospect for additional sales. They will cite chapter and verse and percentage figures to prove that it works in merchandising. The man who buys a shirt finds that his purchase suggests (via the suave salesperson) collars, ties, stickpins, cuff links, *et cetera, ad infinitum.* There are shoppers who prefer the suggestion in some such guise as "Is there something else?" The bank must decide whether its best opportunity to sell a complete banking service is in the letter acknowledging the first connection, or sometime after friendly relations have been established. If the former, then everything possible should be included in this letter to sell all the services. If the latter, separate letters may be devoted to each department at selected intervals.

The request for criticisms of the service and suggestions for improving it is probably prompted by the memory of accounts withdrawn because of some dissatisfaction with the service. It may be of value in reminding the patron that the bank is human and thus subject to error, and he may thereby be predisposed to view with charity any lapse that may come to his notice. In all likelihood it will be sterile of immediate results. The new depositor is hardly in position to offer criticisms. While he is new everything is lovely. It is when the novelty has worn off and he has become one of the "regular" customers, when things have settled into the routine too often truthfully characterized as "deadly" that the little inattentions and discourtesies are apt to creep in. If the bank is not merely making a gesture, if it really wants criticisms, if it welcomes complaints as a means of checking on its operatives and improving its service, then it might well omit this request from the first letter and later write a letter frankly soliciting criticisms, requesting that any discourtesy, however small, be related. Such letters have proved resultful. Patrons have a background of experience with the banks on which to draw. Their suggestions will be worth while; their silence may fairly be construed as evidence of satisfaction.

Crowding the "Welcome" Letter

FEW people open checking accounts in order to secure free advice on financial matters. Yet many banks use the first letter to extol the disinterested segacity of their officers and the experience and training of their personnel, and urge, if not, indeed, exhort, their patrons to come in for counsel and advice on business and financial problems. No doubt this suggestion is the result of the very laudable attempt of legitimate financial institutions to protect their clients against the wiles of the blue sky salesman and wild cat promoter. In so far as it is instrumental in giving clear vision to even one who is about to take a "flyer" via the well known "ground floor" route to immediate affluence it is justifiable. Nevertheless it has a tendency to crowd the welcome letter with what to many seems extraneous matter. A little later, after confidence has been thoroughly established, a separate letter devoted to this subject would be given greater heed. Accompanied by a carefully prepared booklet, it offers splendid opportunity for educational service of high value.

A cooperative bank can with reason and good grace urge the new depositor to bring in his friends, for all are supposed to profit thereby. Other banks lack this excuse and then such an appeal seems utterly selfish. Patrons will bring in their friends if and when they themselves secure service and satisfaction in their dealings with the bank. They will be better missionaries if not prompted too openly.

The most general fault of the letter acknowledging new business is the attempt to crowd too much into it. The tendency to say everything in the first letter means that too few letters are written subsequently. The customer is showered when he first enters, and then he goes through a long drouth. The conscious exclusion from the welcome letter of everything but the essentials—(1) cordial thanks and appreciation, and (2) courteous assurance of satisfactory service—would make for a better letter of acknowledgment. Later letters separately devoted to the other points would more definitely assure continuous happy relations by making periodic contacts which would open new roads to the customer's needs.

No Weak-Kneed "Hope"

ACCOUNTS may be closed and banking connections severed for various reasons. The patron may no longer need the services of the bank; he may have some real or fancied grievance which may or may not be known to the officers. Some accounts are closed out, in conformity with its policy, by the bank itself because of habitual writing of checks against insufficient funds, because of small balances, or other troublesome characteristics.

When the bank closes the account, its letter problem is relatively simple. All that is necessary is a courteous letter announcing the fact of the closing, the exact time effective, and stating without comment the reason for the action taken. One may properly express regret at the necessity for the step, but he should never let it appear to be the bank's fault. The responsibility should be placed squarely on the patron's shoulders. It is not necessary to be brutal or discourteous, and every tendency to insinuation and innuendo should be stifled. Above all, this letter should contain no selling talk, no weak-kneed "hope for future friendly relations on a more satisfactory basis." The business is no longer desirable. Let it be definitely dismissed.

Somewhat more difficult is the task of writing to the man who withdraws his account for reasons known to the bank or ascertainable by it. In every case of voluntary withdrawal diligent effort should be made to find the cause. A good personal service department should have or be able to secure such information in all important cases. If the reason is quite beyond the bank's control, it had perhaps better not be mentioned, or if mentioned, it should be handled without putting the bank on the defensive. The patron may leave the vicinity of the bank or he may remove from the city; he may be influenced by friends or business connections to take his account elsewhere; savings may be withdrawn for investment, because of sickness or misfortune, for a vacation trip, or for some major purchase. In all such cases the banking relations may have been, and probably were, entirely satisfactory. At least there need be assumed no overt act on the part of the bank to drive away the business. If the bank has been at fault it should face the facts frankly, either admitting its error or making whatever reasonable explanation is applicable. In any event the letter should voice genuine regret at the termination of the business or the loss of a valued customer, assure the patron of the bank's good will, and, when not inconsistent with the facts, express the hope that business relations may be resumed.

Voluntarily Closed

IF the reasons for withdrawal of an account are not known, the writer has to decide whether he will attempt in his letter to find them, whether he will make assumptions as to the cause, or whether he will stick to known facts and ignore probabilities. The known facts are that the account was voluntarily closed on a certain day. But no progress is made in the opening sentence of the letter that is given over to a parrot-like recital of those facts:

"A few days ago you withdrew the balance remaining to your credit in this bank."

"I noticed that you closed your checking account the other day."

"We note that you have recently closed your account with us."

Somewhat less barren, because tinged with courtesy in the expression of regret are:

"It is with a feeling of regret that we note you have closed your account."

"I was very sorry indeed to note that you have closed your account."

"In the report of our finance committee today we regretted to note the closing of your account."

Better still is the expression of regret which goes directly to the heart of the matter:

"We very much regret losing you as a customer."

"The closing of your account gives us concern because............"

"We feel a real sense of loss in losing you as a depositor."

These sentences not only express regret but inevitably indicate the subject of the letter and show appreciation of the patron and his business.

The endeavor to elicit from the customer a statement of the reasons for withdrawal usually leads the writer into certain assumptions. The most prevalent one is dissatisfaction with the bank's service.

"Greatly would we appreciate being told if we have been at fault in any way."

"We hope this action on your part was not prompted by any lack of attention or courtesy."

Will such a letter bring the desired results? The customer is gone. Will he write or come in to air his grievance, if he has one? It is doubtful. If complaint-bringing letters had been written occasionally to give patrons an opportunity of expressing themselves, many of those who closed out because of dissatisfaction with the service might have been held. To ask

for criticism when the account is gone is like locking the garage door after the auto has been stolen.

Furthermore, the letters quoted above weaken the bank's position by making it assume the fault. It is argued that the account would not have been withdrawn unless there was some fault on the part of the bank, and that it is only decent courtesy to assume the responsibility. Then let it be done constructively by building toward a resumption of relations, not by weakly reaching out after explanations of the past. The following quotations take advantage of the positive opportunities offered:

"This institution is always glad to receive new accounts, of course, but we particularly welcome the renewal of accounts of former customers, for it is our constant aim truly to deserve the patronage we enjoy."

"You are known to us, your signature is still on file, and all you need do is make a new deposit to reopen your account. In the meantime we should like to have you feel that this is just as much your bank as formerly, that the cordial relations which prevailed while you carried an account have not been affected in any way."

"The officers and employees have constantly endeavored to render you a service that would satisfy and please you in every particular—warrant you in reopening the account just as soon as you again need modern banking facilities."

This is good reasoning. It emphasizes good will and the value of an old customer. It invites him back and assumes that he will come when he can. Positive and constructive but not haughty or self-assertive, it is much more effective than the "hoping" attitude of so many close-out letters:

"We hope your name may not long remain off our books."

"We hope this closing is only temporary."

Reopened Accounts

LETTERS acknowledging the reopening of accounts cover a situation similar to the opening of a new account—but with a difference that is too often overlooked. The new account letter with "reopened" substituted for "opened" should not be sent. This man has already had the first welcome letter. He has likewise had the letter of regret at the closing of his account. Surely there is something more personal to be said now than on the previous occasion. If there are special circumstances attending the return, they should be properly considered. Even if it is an eventless re-entry, it should be treated with courtesy and warmth.

Soliciting New Business

IN soliciting new business by letter the mailing list is of supreme importance. It has been estimated as 50 per cent to 75 per cent of the mail campaign. For it matters not how good the letter or how elaborate the printed inclosure, if the person to whom it goes is not a prospect, or if it never reaches him because of faulty address, it is a dead loss. Banks can build business by mail. They are doing it with notable success all over the country. And they have ready to hand the groundwork for the finest mailing list imaginable in the names

of their present patrons. The most productive letter a certain bank ever used was sent to its stockholders. Others find the best prospects for the bond or savings or other department among their checking accounts.

Some of the outside sources of new business that have been tapped with profit by various banks may be mentioned. Suburban banks may make the convenience appeal to all the business firms and residents in their district. Valuable lists may be compiled from the directories of the better class office buildings. The names of new corporations, partnerships and individual business enterprises may be secured from the newspapers and local records. Special lists for particular purposes may be purchased from reliable local listing bureaus or built by the bank itself. Some institutions write at the opening of school to all college and high school teachers and at commencement time to all graduates. Others send letters to newcomers to the city. Savings accounts have been built by following the birth records. In fact, the opportunities for the bank, within the limits set by its policy regarding the size and desirability of accounts to be solicited, are restricted only by the resourcefulness and ingenuity of the new business man.

Letters soliciting new business, whether sent to patrons or strangers, must obviously be selling letters. Their task is to command attention, create interest, arouse desire, and secure action. They must have something to sell. What that something is seems not to be entirely clear in the minds of all bank correspondents. If one were to judge by the predominance, in bank letters, of references to the size and thickness of the vaults, the certainty of the burglar alarms, the protection of double or triple locks, the advantages of reinforced concrete and special alloy steel, etc., he might conclude that they were selling some tangible commodity.

All banks have these physical appurtenances in slightly varying degree. To sell their advantages for one bank is to sell them for all banks. The sales letter writer will not ignore them, although he may prefer to relegate them to the printed inclosure and devote his letter to those intangibles which mark his bank as distinctive, as different from the common run, and cause the reader to think of his bank as "my bank."